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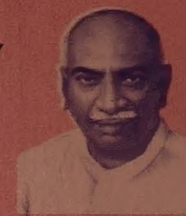

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PAPER - ~~III~~ II

Store OperationsManagement

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PAPER II

STORE OPERATIONS MANAGEMENT

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UNIT X : Financial Aspects of Operations Management-Inventory Management - Budgeting for Merchandise and Forecasting- Inventory Valuation - Cost Method - Retail Method - Resource Allocation - Controlling Costs-reducing Inventory Loss.

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UNIT I
STORE MANAGEMENT

STRUCTURE

UNIT OBJECTIVES

This chapter should enable you to understand and to explain

- To explain the evaluation of retail formats
- To explain the different retail store formats in India
- To evaluate the role of store manager in retail management

1.1 EVOLUTION OF RETAIL FORMATS

The origins of retail are as old as trade itself. Barter was the oldest form of trade. For centuries, most merchandise was sold in marketplaces or by peddlers. Medieval markets were dependent on local sources for supplies of perishable foods because journeys were far too slow to allow for long distance transportation. However, customers did travel considerable distances for specialty items. The development of trading is intimately associated with the social development over the ages. Two important developments of the eighteenth century-the development of railroads and that of telegraphs- largely affected the growth of the retail trade. Orders could be placed and confirmed by telegraph and the goods arrived by train. The wholesale

business actually developed with the advent of the traveling salesman. The success of the wholesale business led to the emergence of the department store.

In 1852, Bon Marche, the first department store, was set up in Paris. Bon Marche revolutionized retail at that time by relying on volume rather than on high mark up to make money. The store also offered customers a money back guarantee on purchases. By the year 1897, the store sold more than $30 million worth of goods per year. The success of Bon Marche had led to other department stores coming up across Europe and America, which continued to grow and flourish until World War II. The late 1800s saw the rise of the so-called 5 and 10- cent stores, which emerged to serve the needs of the poorer classes. The world witnessed a new form of retail when Montgomery ward launched the world's first mail order catalogue in the year 1870. Most rural dwellers encountered mass merchandising in the form of mail-order catalogues. The success of the mail order business led to the emergence of chain stores. The first chain store was A&P (Atlantic&Pacific)—a grocery store founded in 1859 by Geroge F Gilman. Another important chain store was F W Woolworth, set up in 1879 – where nothing cost more than a dime; it was a predecessor to today's dollar stores.

1.1.1 Industrial Revolution

The industrial revolution necessitated dramatic changes on the retail front. The increase in urbanization meant that consumers were now clustered in smaller geogr' hic areas. Firstly, this led to the emergence of shops, to serve the needs of the locals. The middle- income consumer's increased and mass transpiration became a way of life. Secondly, mass manufacture could rarely sell the produce directly to the consumers. Since quantities were high, the number of customers required was also large. Thus, longer distribution channels evolved, as did mass merchandisers. The importance of food to the working class customers and the difficulties faced by them in procuring the food products led to the emergence of co-operative societies in the

United Kongdom. By the year 1900, these societies had achieved six to seven per cent of the retail sales in the country.

1.1.2 Emergence of Self-service

Retail evolved in many ways over the twentieth century. Self-service as a concept, started in 1916, when Clarence Saunders started the first self-service store "Piggly Wiggly" in Memphis, Tennessee. The concept of self-service helped the retailer costs, as fewer workers were required to service the customers.

Supermarkets

The 1930s saw the emergence of the supermarkets. The end of World War II reordered the retail scene-though the retail boom continued. It also saw the emergence of discount stores. Appeared to meet the needs of the blue-collar workers. The first hypermarket that was developed was Carrefour in France, in 1963. The new formats gave the customer the choice of picking up a product, of comparing it with others and then taking a decision on buying. This required that the products were displayed and packaged attractively. It also became necessary to provide all the information with respect to the price, date of manufacture, and expiry weight etc. on the product itself, to aid decision-making. The mass merchandisers worked on three principles, which have now become the fundamental principles of modern selling:

1. They fixed product prices before sale, and the customers bought at the set prices.
2. The prices were determined on the basis of stock turns and the amount of profit that would be generated from the product.
3. They departmentalized the products. Accounting systems were devised to determine the contribution of various departments and this enabled them to drop unprofitable goods.

Specialty Stores, Mails and Other Formats

As the needs of the consumers grew and changed, and saw the emergence of commodity specialized mass merchandisers in the 1970s. The seventies also were witness to the use of technology in the retail sector with the introduction of the 'barcode'. Specialty chains developed in the 80s, as did the large shopping malls.

Shopping malls, a late 20th- century development, were created to provide for all of a consumer's needs in a single, self-contained shopping area. Although they were first created for the convenience of suburban populations, they are now found in many main city thoroughfares. A large branch of a well- known retail chain usually serves as a mall's retail flagship, which is the primary attraction customer.

In Asian countries, many malls house swimming pools, arcades and amusement parks. Hong Kong's City Plaza shopping mall includes one of the territory's two ice rinks. The Mall of America, which opened in 1992, employs more than 12 thousand people and is over 98 per cent leased. Visitors spend an average of three hours in the Mall, which is three times the national average for shopping more visitors annually, than Disney World, Grace land and the Grand Canyon combined. Malls have also become a rage in Asia and The Times Square, Kuala Lumpur, with a built-up area of 7.5 million sq.ft. (697,000 sqm), is the world's largest integrated complex built in a single phase. It's also the biggest shopping mall in Asia.

1.2 VARIATION BY STORE TYPE

Retailing has changed dramatically from the day of the general store. Retailers range in size from small, independent, owner-operated shops like the local florist, dry cleaners, or barber, to national and international giant category killers. As the Indian retail market is just beginning to evolve, one again needs to look at the formats, which have evolved over a period of time in the west. The basic classification done is

store – based retailers and non – store retailers. The store – based retailers can be further classified on the basis of the merchandise that they offer, or by the manner of ownership. This section discusses some of the prominent retail formats under each classification.

A. CLASSIFICATION ON THE BASIS OF OWNERSHIP

On the basis of ownership retail store can be independent retailer a chin retailer or a corporate retail chain a franchise or a consumer co-operative.

i) **An independent retailer** is one of retailers are independent retailers. Stores like the local baniys kirana store and Panwala, are examples of independent retailers, as are stores like Benzer, Instyle, premsons, Amarsons etc. The ease of entry into the retail market is one of the biggest advantages available to an independent retailer often has the advantages of having a one to one rapport with most of his customers. However, on the flip slide, the advantages of economies of scale and the bargaining power with the suppliers is limited.

ii) **A Chain retailer** or corporate retail chain: when two or more outlets are under a common ownership it is called a retail chain. These stores are characterized by the similarity in merchandise offered to the consumer, the ambience the advertising and the promotions. Examples in India include Wills Sport (ITC), Lous Phillipe, Van Heusen (Madura Garments) Arrow (Arvind Mills) and department stores like Globus Wetside and Shoper's Shop. Food world, Music World, Planet M, etc are also examples of chain retailers.

iii) **Franchising:** A franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct a business under an established name, as per a particulars business format, in return for a fee or compensation. Franchising may be for the following:

1. A product or a trade mark franchise where the franchisee sells the products of the franchiser and or operates under the franchiser's name. Archie's stores which have come up all across India, are a example of product franchising.

2. A business format franchise McDonald I perhaps one of the best examples of business format franchising.

Under both the above-motioned methods of franchise may be for a single store, a multiple number of stores for a region or country. Companies like Arvind Mills, Madura Garments, Benetton have expanded in India by opening franchise outlets for their brands. International fast food retailers like Subway, Domino's Pizza Hut and Mc Donald's too have started operations in India through franchising. Franchising as a method of expanding the retail business is explored in detail, later in this chapter.

iv) Leased Departments

These are also termed as shop in shops. When a section of a department in a retail store is leased/ rented to an outside party, it is termed as a leased department. A leased department within a store is good method available to the retailer, for expanding his product offering to the customers. In India, many large department stores operate their perfumes and cosmetics counters in this manner. A new trend emerging in Indian retail is that of larger retail chains setting up smaller retail outlets or counters in high trade areas like malls, department stores multiplexes and public places like airports and railway stations. These stores display only a fraction of the merchandise/ products sold in the anchor stores. Their main aim is to be available to the consumer near his place of work or home.

V) Consumer Co-operatives

A consumer co-operative is a retail institution owned by its member customers a consumer co-operative may arise because of dissatisfied consumers whose needs are not fulfilled by the existing retailers. As the members of the co-operative largely in these co-operatives, there is a limitation on its growth opportunities. Examples of co-operatives in India are the Sahakari Bhandars and Apna Bazaar shops in Mumbai and the super Bazaar in Delhi. The kendriya Bhandars operated by the government – probably one of the oldest examples of co-operatives stores in India.

B) CLASSIFICATION ON THE BASIS OF THE MERCHANDISE OFFERED

It retailers are to be classified on the basis of the merchandise mix that they offer to their customers, they may be very broadly classified as the food oriented and the general and the general merchandise retailers. Within this classification, we can further classify them on the basis of the target market that they cater to. Specialty stores, department stores and convenience stores cater to a very specific target market. They are hence, many a time referred to as product or services retailers. In contrast, supermarkets discount stores, and hypermarkets and off price retailers cater to a mass market and are often called traditional product retailers.

a) Convenience Stores

These are relatively small stores, located near residential areas. They are open for long hours, seven days a week and offer a limited line of convenience products like eggs, bread, milk etc. The store size ranges from 3000 to 8000 sq. ft. and they are targeted at customers who want to make their purchases quickly. Though convenience stores per se, do not exist in India, the retail stores which have started coming up at

petrol pumps in major Indian cities, like the HP Speed Mart and In & Out can be termed as convenience stores.

b) Super Markets

These are large, low cost, low margin, high volume, self – service operations, designed to meet the needs food, groceries & other non food items. This format was at the forefront of the grocery revolution, and today controls more than 30 per cent of the grocery marker in many countries. Internationally, the size of these stores varies from 8000 to 20000 sq. ft. ASDA, Safeway, Kroger and Tesco are some of the large international players. The concept of Every Day Low Pricing (EDLP) is followed by some retailers. Under this the prices charged by the retailers are lower than those charged by other grocery retailers in the area.

Wile there is no standardization on the parameters of what makes a supermarket in India, it is one of the faster growing segments. Many traditional retailers are refurbishing their stores and christening themselves as supermarkets. However some of the well- established ones are Nilgiri's Food world, Subhiksha and Vitan.

c) Hyper Markets These are huge retail stores occupying an area which ranges anywhere between 80000 to 220000 sq. ft. They offer both food and non food items like clothes, jewellery, hardware, sports equipment, cycles, motor accessories, books, CDs, DVDs, Videos, TVs, electrical equipment and computers, and combine the supermarket, discount & warehouse retailing principles.

The hypermarket concept was pioneered by carrefour in France. A distinguishing feature of hypermarkets is their large size. The cheapest prices will normally be found in these stores. Across the world, hypermarkets are usually part of a retail park with other shop, cafeterias and restaurants. They almost always have their

own petrol station on the site. Other facilities on the site include banks with cash machines, photo processing shops and pharmacies. Internationally hypermarkets are located at the outskirts of major towns and cities.

d) Specialty Stores

These are characterized by a narrow product line, with a deep assortments in that product line. Specialty stores usually concentrate on apparel, jewellery, fabrics, sporting goods, furniture etc. They have a very clearly defined target market and their success lies in serving their needs. Personal attention, store ambience and customer service are of prime important to these retailers.

Internationally, most specially retailers operate in an area that is under 8000 sq.ft Examples of international retail chains which are specialty retailers, include the gap, Ikea, High & mighty, Big & Tall, etc. In India specialty stores is one of the fastest emerging formats. Examples of specialty stores in India include retail chains like proline fitness station, Gautier furniture etc. A new type of a specialty retailer has emerged in thc rest this is the category killer. A category killer is a specialty retailer, which offers a very large selection in the chosen product category, and economical prices. Category killers are successful because they focus on only one category. They stock deep (e.g. Toys R U's has 10000 toy items in a store as compared to 3000 in a department store), they buy and sell cheap and finally they dominate the category. Toys R U's is a good example of an international category killer. Nalli's in Chennai can be termed as a category killer in sarees as also the Chandana Bors saree chain in Andhra Pradesh and Toys Kemp in Bangalore and Mumbai has one such category killer – The Loft a 15000 sq.ft store catering to footwear alone.

e) Department Stores

Department stores as a retail format, originated in the mode nineteenth century. This format of retailing is popular in may parts of the world. In broad terms,

department store is a large scale retail outlet, often multi – leveled, whose merchandise offer spans a number of different product categories. The merchandise of various departments is displayed separately in the store. Appeal and furnishing are two of the most common product categories in most department stores. Some of the well known international players in this format are Marks & Spencer Sears, J.C. Penny, Harrods, Selfridges etc.

While department stores have been around in India for a long time, this format of retailing has seen a fair amount of action over the past few years. The size of an average Indian departments store varies from 20000 to 40000 sq.ft and stocks anywhere between 50000 to 100000SKUs. Some of the national players are Shoppers Shop, Globus, Westside and lifestyles, while others like Akbarally's, The Bombay store, Benzer in Mumbai, Ebony in Delhi an Chermas and Meena Bazaar in Hyderabad, are the prominent local players.

f) Off Price Retailers

Here, the merchandise is sold at less than the retail prices. Off price retailers buy manufactures, seconds overruns and or off season at a deep discount. The merchandise may be in odd sizes, unpopular colours or with minor defects. Off price retail stores may be manufacturer owned or may be owned by a specialty or departmental store. These outlets are usually seen by the partent company as a means of increasing the business. Factors outlets, if owned by the manufacturer, may stock only the company's merchandise, examples include the pantaloon factory outlets, etc. On the other hand, off price retailers owned by a specialty or departmental store,

may sell merchandise from the parent company as well as merchandise acquired from other retailers. This format largely depends on the volume of sales to make money.

e) Catalogue Showrooms

Catalogue retailers usually specialize in hard goods, such as house ware, jewellery, and consumer electronics. A customer walks into this retail showroom and goes through the catalogue of the products that he would like to purchase. Some stores require the customer to write out the product code number and hand it over to the clerk, who then arranges for the product to be brought out from the warehouse for inspection and purchase. Some of the popular catalogue showroom retailers in the world include Argos, Service Merchandise and Best Products.

C) Non-Store Retiling

The utilimate form of retailing directly to the consumer is the non-store retailing. A direct relationship with the consumer is the basis of any kind of a non-store retail venture. It may be broadly classified into direct selling and direct response marketing. While direct selling involves a direct, personal contact, in direct response marketing, the customer becomes aware of the products / services offered through a non personal medium like mail, catalogues, phone, television or the internet.

a) Direct Selling

Direct selling involves the making of a personal contact with the end consumer at his home or at his place of work. Cosmetics, jewellery, food and nutritional products, home appliances and educational materials are some of the products sold in this manner.

The direct selling industry, which started out in India in the mid-1990s, went through a bad phase before attaining a significant worth of rs.1,500 crore today, and it continues to record a 25-30 per cent growth.

The Indian Direct Sellers Association (IDSA) has complied a comprehensive report on domestic and international patterns followed by the direct selling industry. According to the survey, the global turnover of the direct selling industry has more than doubled over the last 10 years, from US$33.32 millions in 1988 to US $81.87 millions in 1998. According to the same survey, the direct selling industry in India, has been witnessing a 60-65 per cent growth in the sales turnover over the past few years. The total sales have grown from Rs.588 crore in 1998-99, to Rs.714 crore in 1990-2000.

As far as the profit of the products purchased from direct selling companies is concerned, 68.9 per cent are household goods, while 12.4 per cent are personal care products. Family products (including educational material, leisure products) account for 14.4 per cent, business aids and others (mainly promotional material) account for 3.59 per cent, and food products (like dietary supplements) account for 0.71 per cent of all the products purchased. In world markets, households goods account for 39.5 per cent of all products purchased, while personal care products account for 30.4 per cent.

An interesting aspect of direct selling in India is that women comprise up to 70 per cent of all sales people in India, couples account for 20 per cent and males account for 10 per cent. The number of men is expected to go up because companies like Modicare, Amway and Herbalife have been encouraging men to join their sales force. Direct selling may follow the party plan or the multi level network. In a party plan, the host invites friends and neighbours for a party. The merchandise is displayed and demonstrated in a party like atmosphere and buying and selling takes place. In a multi level network, customers act as master distributors. They appoint other people to work with them as distributors. The master distributor earns a commission on the basis of the products sold and distributed by the distributors.

b) Mail Order Retailing/ Catalogue Retailing:

This form of retailing eliminate personal selling and store operations. Appropriate for specialty products, the key is using customer database to develop targeted catalogues that appeal to narrow target markets. The basic characteristic of this form of retailing is convenience.

c) Television Shopping:

Asian Sky Shop was among the first retailers who introduced television shopping in India. In this form of retailing, the product is advertised on television, details about the product features, price and other things like guarantee / warranty are explained. Phone numbers are provided for each city, where the buyer can call in and place the order for the product. The products are then home delivered.

d) Electronic Shopping:

This format allows the customer to evaluate and purchase products from the comfort of their homes. The success of this form of retailing largely depends on the products that are offered and the ability of the retail organization to deliver the product on time to the customer. Strong supply chains and delivery mechanisms need to be in place for it to be a success. Many retailers are opting for click and mortar, where, while having a brick and mortar retail store, they also sell some of their products or ranges on the Internet. Though most of the large retail organizations in the world have already adopted this model, it is yet to catch on in India.

1.3 ROLE OF STORE MANAGER

The following details examine the store managers responsibilities for presenting and managing merchandise and providing customers service. While an important objective of store managers is increasing the revenues generated by

employees, managers also increases their stores profits by reducing costs. The major cost uses the compensation and benefits of employees but store managers also need to control maintenance and energy costs and inventory loss due to shoplifting and employee theft. These functions are divided into four major categories.

I. Managing Store employees

The steps in the employee management process that affect stone employee management process that affect store employees productivity. These steps are follows:

a) Recruiting and selecting effective people

b) Improving their skills through socialization and training

c) Motivating and rewarding

a) Recruiting and selecting

The first step in the employee management process is recruiting and selecting employee. To effectively recruit employees, store managers need to undertake a job analysis, prepare a job description, find potential applicants with the designed capabilities and screen the best candidates to interview.

b) Socializing and Training

Step in developing effective employee is introducing them to the firm and its policies. Retailers want the people they live to become involved, committed contributors to the firms successful performance. On the other hand, neatly hinted employees want to dean about their job responsibility and the company they have decided to join. Socialization is the set of steps taken to transform new employees into effective, committed members of the firm. Socialization goes beyond simply orienting new employees to the firm. A principal objective of socialization is to develop a long term relationship with new employees to increases productivity and reduce turnover costs.

The effective training for new store employees included both structured and on the job learning experiences. Structured programme during the structured program, new employees be taught the basic skills and knowledge they will need to do their jobs. For example sales person learn what the company policies are, how to perform basic selling skills, and how the perform basic selling skills.

On the Job Training: The next training phase emphasized on the job training. New employees are assigned a job, given responsibilities, and coached by their supervisor. The best way to learn is to practice what is being taught new employees learn by doing activities, making mistakes and then learning how not to make those mistaken against.

c) Motivating and Managing Store Employees

After employees have received their initial training, managers must work with them to help them meet their performance goals try being an effective lender and providing the appropriate motivation. Motivating employees to perform up to their potential may be store manager's most important and frustrating task. Employee performance improves when employee feel that

1. Their efforts will enable them to achieve the goals set for them by their managers and
2. They will receive rewards they value if they achieve their goals.

Thus managers can motivate employee by setting realistic goals and offering rewards employees want.

d) Evaluating Store Employees providing feed back

The next step in the managerial process is evaluating and providing feed back to employees. The objectives of the evaluation process is to identify employees who are performing well and those who credit. On the basis of the evaluation, high performing employees should be rewarded and considered for positions of great

responsibility. Plans need to the developed to increase the productivity of employees performing below expectation.

1. Should poor performers be feminized?
2. Do they need additional training?
3. What kind of training do they need?

e) Compensating and Rewarding Store managers

They find step in improving employees productivity is compensating and rewarding employers. Store employees receive two types of rewards from their work: Extrinsic and intrinsic

Extrinsic rewards the rewards provided by either the employees manager or the firm such as compensation, promotion and recognition. Intrinsic rewards are rewards employees get personally from closing their job well. For example, sales person after likes to sell because they think its challenging and form. Of course, they want to be paid, but they also find if rewarding to help customers and make sales.

II. Controlling Costs

Labour scheduling, store maintenance energy management and reducing inventory are loss four opportunities for reducing store operating expenses.

a) Labour scheduling

Labour scheduling is different because of the multiple – shift and part time workers needed to staff stores 12 hours a day seven days a week, In addition customer traffic varies greatly during the day and the week. Efficient labour scheduling requires more than POS sales data by day and time of day the manager also needs to know the traffic patterns and the impact of store employees on sales.

b) Store Maintenance

It is entails the activities involved with managing the exterior and interior physical facilities associated with the store. The exterior facilities include the parking lot, the entrances to the store, and signs on the outside of the store. The interior facilities include the walls, flooring, ceiling and displays and signs.

c) Energy Management

It is the management of expanses on lighting, heating and cooling is a major issue in store operations, especially in stores with special refrigeration needs such as supermarkets and restaurants.

d) Reducing inventory loss

An important issue facing store management is reducing inventory losses drupe to employee theft, shop lifting, mistakes and inaccurate records and vendors errors. In developing a loss prevention program, retailers confront a traders off between providing shopping convenience and a pleasant work environment and on the other hand, preventing losses due to shoplifting and employee theft. The key to on effecting loss prevention programme is determining the most effective way to protect merchandise while and preserving an open, attractive store atmosphere and a feeling among employees that they are trusted. Loss prevention requires co-ordination. Between store management, visual merchandising and store design.

III. Managing Merchandise

Store managers are concentrated to there following activities is a very effectively.

1. Displaying merchandise and maintaining visual standards
2. Working with buyers

a) Suggesting new merchandise

b) Buying merchandise

c) Planning and managing special events

d) Making down merchandise

IV. Providing customer Service

Retail is the part of service sector. This is largely due to the fact that today's, retailers, separate in a buyers market's. Today's customer is a savvy shopper with an eye for price, service and convenience. He demands a lot and if the store fails to meet his expectations, he would rather shop elsewhere. The world has moved on from the age of customer satisfaction to the age of customer delight, where organizations are remodeling their strategies around the customer and his needs, with the aim of brining him back and keeping him for life.

Recent years traditional retailers have expended into a variety of services. This is has generally been accomplished in the following ways. Acquisition, Leased department and Tie in agreement.

1.4 CONCLUSION

The world of retail changed yet again when in 1995, Amazon. Compounded its doors to a world – wide market on the web. With the growth of the World Wide Web, both retailers and consumers can find suppliers and products from anywhere in the world. Thus, the evolution of retail formats worldwide has been largely influenced by a constantly changing social and economic landscape. One of the main reasons for new formats' emerging is the consumer himself. Today's consumer, when compared to the consumer of the earlier generation, is definitely more demanding and is focused on what he wants. Consumer demand is the prime reason for the emergence of various formats. The retailer, on the other hand, has been influenced by factors like the availability of real estate, and the increase in its prices. He is faced with the challenge of adding on new services and the need for differentiation. This has led to specialization

and the emergence of specialists. Supply chain complexities and the increasing pressure on margins have also forced the retailers to look at new formats.

1.5 CHECK YOUR PROGRESS

1. When did the super market energed?
2. Where did the first hyper market setup?
3. What are the ownership patterns of Retail shops?
4. Based on merchendise how would be classify retail outlest?
5. Where are non store retailing?

1.6 ANSWER TO 'CHECK YOU PROGRESS'

1. 1930
2. France
3. Independent store, chain store, Franchising, Leased departments and Consumer Co-operatives
4. Convenience Store, Super markets, and Hypermarkets
5. Direct selling, Mail order Retailing, Television shopping, and E-Shopping.

1.7 QUESTIONS AND EXERCISES

1. Discuss the main consumer trends in the 2010s and the impact such trends will have on future retail provision.
2. Briefly explain the classification by retail stores in India
3. Discuss the main role and functions of retail store manager
4. Review the advantages and disadvantages of the super markets and Department stores in India
5. Short notes on

- Chain retailer
- Franchising retailers
- Convenience stores

1.8 SUGGESTED READING :

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UNIT II

MERCHANDISING IN RETAIL STORE

UNIT OBJECTIVES

This chapter should enable you to understand and to explain

- **To provide a basic understanding the concept of retail merchandising.**
- **To provide a detailed insight into Onshelf and visual merchandising in retail store**
- **To elaborate on the item presentation technique in retail store**
- **To understand the basic meaning of planogram**

2.1 Introduction

At a time when unique image based on product. Merchandise, price, promotion and location have becomes impotent weapons for as differentiation, the retail store is the last weapon for the marketer. Hence, most retailers today create an exciting store design with more emphasis on innovative merchandising techniques. It has become one of the most effective and powerful promotional techniques. Promotion is the element that increases the importance of the retailer and it has assumed a greater

importance that ever before. Advertising may encourage consumers to visit the store but the retailer's display can convert the passive visitor or viewer to the buyer.

Retail Merchandise

Merchandising is the process of planning the product/merchandise arrangement for a retail store, making sure the right products are available to the target customers. It also refers to the display and presentation of products in the retail environment. It refers to the way, in which products are presented to customers in store. In a scenario where the customer wields enough power by means of the wide choice available to her, but limited time to buy, it is extremely essential for the retailers to make their merchandise visible. Merchandising assortment refers to the unique mix of products offered by one retailer, which is not available from any other retailer. Products should be displayed at the prominent locations, arranged in the most attractive manner to gain the eyeballs of the buyers as well as passive viewers.

Merchandise Mix decision

While positioning the retail outlet, choice of the products, the depth and breath of products line, and number and selection of items are important decisions. It is important to decide about what products. Merchandise to carry, what styles, models, colors, sizes and price ranges and how many units of each product to have inventory. These decisions affect customers satisfaction as customers expect more and more variety at retail outlet. It is critical to strike a balance between more variety and quantity and cost. Right merchandise mix helps the retailer to achieve variety volume balance.

Merchandise mix will vary with the type of retailer. An important factor that needs to be factored in all the size and content decisions is the space available. The cost of floor space puts effectively a ceiling on the merchandise displays, variety and quantity carried out by the retailer. On the other hand, if adequate space is available, retailer can display more merchandise, which can tempt the customers for impulse

buying. Retailer can keep more variety and inventory and thus can give better service to the customers. Thus innovative and creative use of the limited available space is critical.

2.2 ON SHELF AND VISUAL MERCHANDISING

Merchandising is nothing but displaying, arranging products in the attractive manner so as to catch the attention of the customers inside and outside the store. Merchandise aims to generate sales volumes and create and reinforce a distinctive image of the store. It is a way of communicating with the present and potential customers. When the customers see something neatly and attractively displayed. generally they very good impression about that store and they are tempted to enter that store. Today, retailers are paying more attention on merchandise presentation as competition has intensified. There are two basic types of merchandise presentation, on shelf and visual merchandise.

a) On Shelf Merchandising

In on shelf merchandising, products are displayed on counters racks. windows, shelves and fixtures throughout the store. Customers can see touch, read, understand, examine, feel and the products and hopefully buy. Hence while arranging the merchandise (product) on shelf- attractive as well as easy to understand and accessible arrangement for the customers is required. It must be easy to maintain and at he same time should not be so unique or altogether different that the customers are afraid to touch the merchandise. Fixtures efficiently hold and display merchandise. Fixtures efficiently hold and display merchandise and encourage traffic flow in the store. Fixtures used in the store must match with surrounding and overall image of the store. They come in large variety of styles, colours, sizes and textures. But they should be carefully chosen to match with the merchandise to be hung or kept on that. Store fixtures have three basic types such as:

1. Soft Fixtures:

These fixtures are used for light and fashionable merchandises. Round and four –way features racks are most commonly used in stores for apparels. Previously straight racks were widely used but they offer less opportunity to differentiate one style or colour of garment from another. However with round or four way racks, customers can more closely have a look on the entire garment and get the feel of that. So retailers prefer "face out" presentations through these fixtures to "sleeve Out" presentations through straight racks. Round racks are also known as a bulk fixture or capacity fixture as they can hold large quantity. Still they do not look bulky and give clutter feeling. However while using four-way racks (also known as feature fixture). for customers' convenience and easy shopping, all the same type of garment with change in only size and colour.

2. Hardliness Fixture

This is like a workhorse and also known as the Gondola because it is a long structure consisting of a large base, vertical, spine fitted with sockets or notches into which a variety of shelves, peg hooks, bins, baskets and other hardware can be inserted. Along with the gondola, a few other types of fixtures such as tables, large bins are also used. However it is not very suitable for fashionable soft lines merchandises.

3. Wall Fixtures

These fixtures are designed to be hung on the wall. Shelves peg hooks. bins, baskets and hanger bars can be fitted into wall. Hanger bars can be hung parallel to the wall so that large quantities of garments can be sleeved out. Generally walls can be merchandised much gigher than floor fixtures whereas on the floor, round racks have to be kept to much lower height so that customers can easily see and pick.

b) Visual Merchandise

Visual merchandise refers to display and presentation of products in order to sell them. It is a form of non- personal in store and out store presentation

and exhibition of merchandise along with other printed forms of communication. Visual merchandising includes various elements such as window displays, counter displays, shelf displays, mannequins and body forms, signage, fixture, dispenses, Point Of Purchase (POP), Point of Sales (POS) material, etc. Internal merchandising involves the use of a number of POP/POS techniques to attract attention towards the product inside the store. For example, display stands, leaflets dispensers, demonstration and samples, etc. POP/POS techniques improve the shopping appeal.

Visual merchandising has grown beyond mere arrangement of products for easy access to customers to a strategic issues in the retail management. Visual merchandising is also known as a silent salesman. Attractive displays silently invite customers to see and touch the goods. A theme display based on a season or an event is common in the Indian market.

It requires conceptual, aesthetic and analytical skills in order to guide the customers, influence their buying decisions and motivate them to cist the store again. Good visual merchandising plan always aims to educating customers, creating desire and finally persuade them to purchase. Unfortunately Indian retailers especially from the unorganized sector, lack adequate knowledge and expertise and they are not making use of visual merchandising power.

2.3 Shop Displays

Shop displays play important role in the visual merchandising. Displays outside and in store at prominent locations silently invite customers, and entice them to enter the shop and push them towards purchase. To derive maximum benefits, planning and organizing of displays is imperative. Display concepts themes, culture, fashions and prevailing trends or a combination of two or more. Different types of displays are used in different categories of retail stores. Commonly used types are discussed below:

1. **Window Displays:** Retailer can use either exclusive or open windows. Exclusive windows are separate area having closed backdrop that means stores interior is not

visible from outside. Open windows do not have any backdrop hence, the outsiders can see the interior of store through the display windows. Today, many retailers especially supermarkets prefer open windows and they use huge full height glass windows for product displays visible from both sides. Manufactures pay handsome rental for getting place for their merchandise in these display windows as they attract attention of passers by. Apparel retailers can make good use of these windows with some theme related to the season or cultural or sports event.

2. Counter Displays: Small, light weight items can be kept on counter for display. In small grocery shops, fast moving and daily purchased products can be kept on the counter to save the time of sales man getting those products. As well as customers can go through and easily pick them up. Mostly they are bakery items like jewellery or cosmetic, wallets, belts, watches etc. are displayed in counters that have glazed display shelves.

3. Wall and Shelf Displays: New arrivals in FMCG slow or non moving products requiring attention of customers can be kept an eye level in the shelves at the prominent positions. Products with special schemes also need attention. Hence, they are kept at prominent places on shelves in the store. In self – services supermarkets, it has special significance. Wall displays include fixture, slat walls, grid wall panels and displays, slotted walls etc.

4. Live Displays: Sometimes live models are used for product displays at the entrance of the store. This is common for kids' wear toyshops. Sometime they show the demonstration to attract kids. During Christmas, models in Santa Clouse's get up are now common in supermarkets in the Indian metros.

5. Brand Corners: Exclusive brands are displayed areas in the supermarkets selling many reputed brands. A devoted space in shelves or gondolas carry particular brand. It

is more useful when that brand has announced some scheme or benefit to the customers. In such cases, customers can find out that brand easily in clutter.

6. Marquee Displays and Signage: A marquee panel is erected in the front or in the courtyard of the store. Marquee panels and signage are commonly used in large supermarkets. The store signage is a vital element in store's exterior and thus in attracting customers' attention. The signage with advertisements of the products can be used as name board or they can be even placed inside the shop. Signage provides information about the store such as working hours, timing to return, weekly holiday, prevailing discounts or any other schemes. Just by going through signage. customers can get the overall idea about the store and they can decide whether to enter the shop or not. Attractive signage can prompt the customers to visit the store. In the big shopping centers with many retail outlets, signage plays a vita role. They give information about all outlets – type and their offerings, etc. without which customers may get confused or disappointed and finally perceive the particular store as highly inconvenient. While designing signage, size, lettering and colours and placement of signage are the important points to consider. Signage used in retail store should be complementary with the store design and overall image of the store. It should be professional and never handwritten. Many manufacturers are ready to pay good rentals to the retailers for using their brands on retailer's name boards. In India, small grocery shops – typical kirana shops use such name boards for their outlets.

7. Cascade / Waterfall Displays: These are commonly used for ready-made garments. Shirts, jackets, blazers are displayed on linear walls with the help of dropping nods.

Benefits of shop Displays

Displays and all visual merchandising techniques can communicate effectively with customers and can convert visitors, passive watchers or viewers into buyers. They offer following benefits:

1. Ensure maximum product exposure.
2. Inform, educate and entertain the customer about the services and merchandise offered by the outlet.
3. Make it possible, accessible for the customers to see, touch or even try the merchandise.
4. Enhance product appearance and create interest.
5. Emphasize on making right image of the store.
6. Encourage customers to enter the store and wander in store to discover more variety and novelty.
7. Tempt customers to take quick purchase decision and impulse buying thus displays can generate additional sales through the impulse purchases.
8. Introduce new arrivals in store.
9. Increase sales when there is a unique or special offer announced.
10. Increase in-store traffic and sales during low season or offer-season and in sluggish market conditions.

2.4 STORE MERCHANDISING

1. Store maintenance:

An operations blueprint systematically lists all the operating functions to be performed, their characteristics, and their timing. While developing a blueprint, the retailer specifies, in detail, every operating function from the stores opening to closing and those responsible for them. A large or diversified retailer may are multiple blueprints and have separate blueprints for such areas as store maintenance, inventory management, credit management and store displays. Whenever a retailer modifies its store format or operating procedures, it must also adjust the operations blueprint.

2. Store format and space allocation:

They are following details of store format, size and space allocation in stores.

a) Store format:

A key store format decision for chair retailers is whether to use prototype stores, whereby multiple outlets conform to relatively uniform construction, layout, and operations standards. Such stores make centralized management control easier, reduce construction costs, standardize operations facilitate the interchange of employees among outlets, allow fixtures and other materials to be bought in quantity, and display a consistent chain image.

Together with prototype stores some chains use rationalized retailing programs to combine a high degree of centralized management control with strict operating procedures for every phase of business. Most of these chain's operations are performed in a virtually identified manner in all outlets. Rigid control and standardization make this technique easy to enact and manage and a firm can add a significant number of stores in a short time.

b) Space allocation:

Retailers often focus on allocating store space. They use facilities productively by determine the amount of space, and its placement, for each product category. Sometimes, retailers drop merchandise lines because they occupy too much space. With a top down space management approach, retail stunts with its total available store space, divides the space into categories, and then works on product layouts.

In contrast, a bottom-up space management approach begins planning at the individual product level and then proceeds to the category, total store and company levels. They are among the factices that some retailers use to improve store space productivity vertical displays, which occupy less room, hang on store walls or from ceilings.

2.5 MERCHANDISE / ITEM ARRANGEMENT TECHNIQUES

Many methods are available to retailers for effectively presenting merchandise to the customer. To decide which is best for a particular situation, store planners must consider the following four issues.

1. Probably most important, merchandise should be displayed in a manner consistent with the store's image.
2. Store planners must consider the nature of the product.
3. Packaging often dictates how the product is displayed.
4. Finally, products profit potential influences display decisions.

TYPES OF ITEM PRESENTATION

1. Idea oriented presentation:

It's a method of presenting merchandise based on a specific idea or the image of the store. This technique is similar to the idea-oriented presentation in that merchandise made by the some vendor will tend to be coordinated.

2. System / Item presentation:

Probably the most common technique of organizing stock is by style or item. Discount stores, grocery stores, hardware store and drugstores employ this method for nearly every category of merchandise.

3. Colour presentation:

A bold merchandising technique is by colour. For instance, in winter months women's appeared stores may displays all white cruise wear together to let customers know that stores is "the place" to purchasing clothing for their winter vacation.

4. Price living:

Organizing merchandising in price categories, when retailers after a limited number of predetermined price points within a classification. This strategy helps customers easily find merchandise at the price they wish to pay.

5. Vertical merchandising:

It is presented vertically using walls and high gondolas. Customers shop much as they read a newspaper – from left to right, going down each coloumn, top to bottom. Stores can effectively organise merchandise to follow the eyes natural movement.

6. Tonnage merchandising:

It is a display technique in which large quantities of merchandise are displayed together. Customers have come to equate tonnage with low price. It is used to enhance and reinforce a store's price image. Using this display concept, the merchandise it self is the display. The retailer tops customer will notice the merchandise and the drawn to it.

7. Frontage presentation:

It is a method of displaying merchandise in which the retailer exposes as much of the product as possible to catch the customer's eye.

8. Fixtures:

The primary purposes of fixtures are to efficiently hold and display merchandise. At the some time, they must help define areas of a store and encourage traffic flow. Fixtures come in an infinite variety of styles, colors, sizes and textures, but only few basic types are commonly used. For apparel, retailers utilize the straight

rack, rounder, and four way. The mainstay fixture for most other merchandise is the gondola.

a. Straight rack:

It is consist of a long pipe suspended with supports going to floors or attached to a wall. Although the straight rack can hold a lot of apparel, its hand to feature specific styles or colours.

b. Rounder or bulk fixture:

It is a round fixture that sites on a pedestal. Although the straight rack can hold a lot of apparel it is hand to feature specific styles or colors. But as with the straight rack, customers cannot get a frontal view of the merchandise.

c. Four way fixtures:

It has two crossbars that sit perpendicular to each other on a pedestal. The fixture holds a large amount of merchandise and allows the customers to view the entire product. The four way is handler to properly maintain then the roomer or straight rack however.

2.6 Planograms

A planogram is a tool used by the retailers, and if helps determine the location of merchandise within a department. It is a diagram that visually communicates how merchandise and props physically fit on a store fixture or window, to allow for proper visibility and price point options. A planogram is created after taking into account, factors like product sales, the movement of the products within the product category and the space required for the various products. The usually list the exact number of square feet used for the various products and the exact number of product to be displayed in a particular area. For a retail who has number of stores spread over

various locations, a planogram is a good way of communicating how displays one to be done. This allows for consistency presentation, across locations.

2.7 CONCLUSION

A planned shopping center is centrally owned or managed and well balanced. It usually has one or more anchor stores and many smaller stores. The planned center is popular, due to extensive goods and service offerings, expanding suburbs, shared strategic planning and costs, attractive locations, parking facilities, lower theft rates, the popularity of malls and the lesser appeal of inner city shopping. Negative aspects include operations inflexibility, restrictions on merchandise carried and anchor store domination. There are three forms: regional, community and neighborhood centers.

2.8 CHECK YOUR PROGRESS?

1. What ate the components of Merchendise Mix?
2. What do you mean by onshelf merchendising?
3. What are the types of shop displays?
4. What is Planograms?
5. What is bottom up space management?

2.9 ANSWER TO CHECK YOUR PROGRESS :

1. Variety and Assertments
2. Onshelf merchendising, Products are displayed on counter racks, windows, shelves and Fixtures throughout the store. Customers see touch, read, understand, examine, feel and the products and hope fully buy.
3. Window, counter, wall and shelf, Live Displays, Brand corners, Marque Displays and Signage and Cascade / waterfall Displays
4. A planogram is a tool used by the retailers, and if helps determine the location of merchendise within a department. It is a diagram that visually

communicates how merchendise and props physically fit on a store fixture or window, to allowfor proper visibility and price point options.

5. A bottom up space management approach begins planning at the individual product lend and then proceeds to the category, total store and company levels.

2.10 QUESTIONS AND EXERCISES

1. Write a brief notes on the evaluation of store merchandising in India
2. What are the different types of onshelf merchandising in India
3. What you understand by shop display? What are the benefits of shop display in retailing?
4. Briefly explain the item presentation techniques used in retail stores in India
5. Short notes on

- Store format
- Space allocation
- Store maintenance

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UNIT III
STORE MERCHANDISING REORDERING

UNIT STRUCTURE

UNIT OBJECTIVES

The chapter should enable you to understand and explain

- To provide a basic understanding of the reordering merchandise in retailing
- To describe the financial inventory control and methods in retailing
- To understand the reordering time and reorder level in retail store

3.1 INTRODUCTION

Whatever source is chosen, there must be a procedure to evaluate the merchandise under consideration. Three procedures are possible: inspection, sampling and description. Inspection occurs when every single unit is examined before purchase and after delivery. Sampling is used with regular purchases of large quantities of breakable, perishable or expensive items. Description buying is used with standardize. non-breakable and nonperishable merchandise. A merchandising plan should be re-valuated regularly, with management reviewing the buying organization and that organization assessing the implementation. The overall procedure as well as the handling of individual goods and services should be monitored.

3.2 REORDERING MERCHANDISE

Four factors are critical in recording merchandise that the retailer purchases more than once: order and delivery time, inventory turnover, financial outlays and inventory versus ordering costs. How long it takes for a retailer to process an order and a supplier to fulfill and deliver it? It is possible for delivery time to be so lengthy that a retailer must reorder while having a full inventory. On the other hand, overnight delivery may be a available for some items.

How long does it take for a retailer to sell out its inventory? A fast- selling product gives retailer two choices: order a surplus of items and spread out record periods, or keep a low inventory and order frequently. A slow- selling product item may be let a retailer reduces its initial inventory and spread out reorders.

What are the financial outlays under various purchase options? A large order, with a quantity discount, may require a big cash outlay. A small order, while more expensive per item, results in lower total costs at any one time since less inventory is held?

There are trade-off between inventory holding and ordering costs. A large inventory fosters customer satisfaction, volume discounts, low per-item shipping costs, and easier handling. It also means high investments; greater obsolescence and damages; and storage, insurance, and opportunity costs. Placing many orders and keeping a small inventory mean a low investment, low opportunity costs, low storage costs, and little obsolescence, Yet, there may be higher unit costs, adverse effects from order delays, a need for partial shipments, service charges, complex handling, and disappointed customers while (if items are out of stock). Retailers try to hold enough stock to satisfy customers while not having a high surplus. Quick response inventory planning lowers inventory and ordering costs via close retailer-supplier relationships.

3.3 FINANCIAL INVENTORY CONTROL: INTEGRATING VALUE AND UNIT CONCEPTS

In practice, they are linked. A decision on how many units to buy is affected by value investments, inventory turnover, quantity discounts, warehousing and insurance costs, and so on. Three aspects of financial inventory control are covered next: stock turnover and gross margin return on investment, when to reorder, and how much to reorder.

a) Stock Turnover and Gross Margin Return on Investment

Stock turnover represents the number of times during a specific period, usually one year that the average inventory on hand is sold. Store, product line, department, and vendor can measure it. With high turnover, inventory investments are productive on the value basis, items are fresh there are fewer losses due to changes in styles, and interest, insurance, breakage and warehousing costs ate reduced. A retailer can raise stock turnover by reducing its assortment, eliminating or having little inventory for slow-selling items, buying in a timely way, applying Quick Response (QR) inventory planning, and using reliable suppliers.

Stock turnover can be computed in units or values (at retail or costs). The choice of a formula depends on the retailer's accounting system:

$$\text{Annual rate of stock turnover (in units)} = \frac{\textit{Number of units sold during year}}{\textit{Average Inventory on hand (in units)}}$$

$$\text{Annual rate of stock turnover (in value (Rs))} = \frac{\textit{Net yearly sales}}{\textit{Average Inventory on hand (at retail)}}$$

$$\text{Annual rate of stock turnover (at cost)} = \frac{\textit{Cost of good sold during the year}}{\textit{Average Inventory on hand (at cost)}}$$

In competing turnover, the average inventory for the entire period inventory needs to be reflected. Despite the advantages of high turnover; buying items in small amounts may also result in the loss of quantity discounts and in higher transportation charges. Since high turnover might be due to a limited assortment, some sales may be lost, and profits may be lower if prices are reduced to move inventory quickly. The return on investment depends on both turnover and profit per unit.

Gross margin return on investment (GMROI) shows the relationship between the gross margins in rupees (total value operating profits) and the average inventory investment (at cost) by combining profitability and sales to stock measures:

$$\text{GMROI} = \frac{\textit{Gross margin (in Rs)}}{\textit{Net Sales}} \text{ X } \frac{\textit{Net Sales}}{\textit{Average inventory}}$$

$$= \frac{\textit{Gross margin (in Rs)}}{\textit{Average inventory at cost}}$$

The gross margin in values equals net sales minus the cost of goods sold. The gross margin percentage is derived by dividing the value of gross margin by net sales.

A sales to stock is derived by dividing net sales by average net sales by average inventory at cost. That ratio may be converted to stock turnover by multiplying it by (100 Gross margin percentage)/100)

1. It shows how diverse retailers can purpose. A supermarket may have a gross margin of 20 percent and a sales to stock ratio of 25 a GMROI of 500 percent. A women's clothing store may have a gross margin of 50 percent and a sales to stock ratio of 10 a GMROI of 500 percent. Both firms have the same GMROI due to the trade off between item profitability and turnover.

2. It is a good indicator of manner's performance since it focuses on factors controlled by that person. Interdepartmental comparison can also be made.

3. It is simple to plan understand, and data collection is easy.

4. It can be determined if GMROI performance is consistent with other company goals.

The goals margin percentage and the sales to stock ration must be studied individually. If only overall GMROI is reviewed, performance may be assessed improperly.

3.4 WHEN TO REORDER

One way to control inventory investment is to systematically set stock levels at which new orders must be placed. Such a stock level is called reorder point, and it is based on three factors. Order lead time is the period from the date an order is placed by a retailer to the date merchandise is ready for sale (received, price marked, and put on the selling floor). Usage rate refers to averages sales per day, in units, of merchandise, safety stock is the extra inventory that protects against out of stock conditions due to unexpected demand and delays in delivery. It depends on the firms policy toward running out of items.

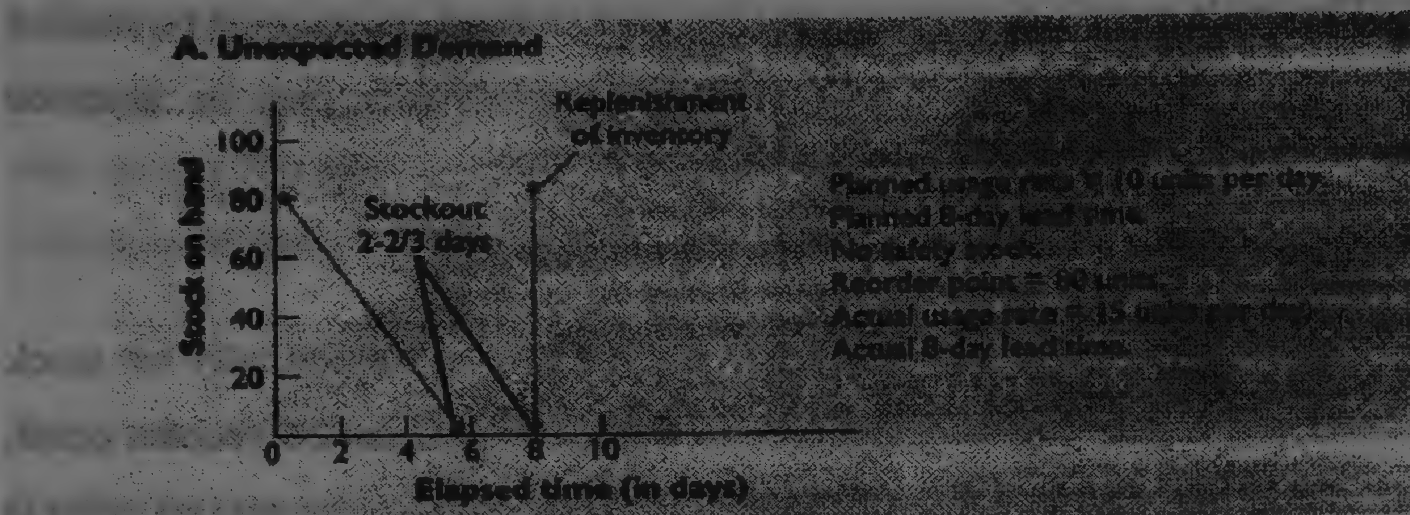
The is the formula for a retailer that does not plan to carry safety stock. It believes customer demand is stable and that its orders are promptly filled by suppliers.

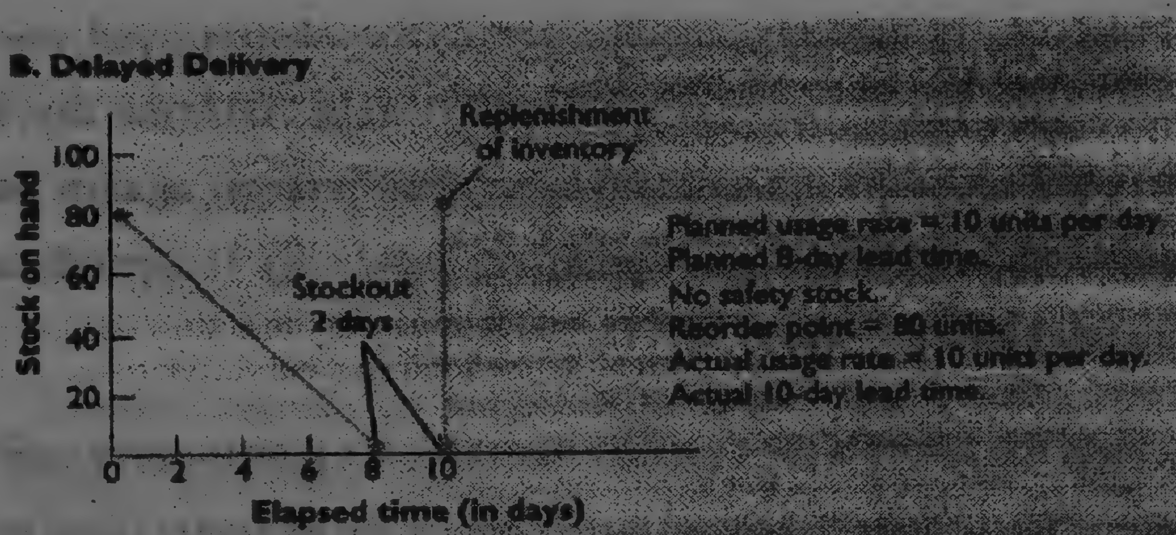
Reorder point = Usage rate x Lead time

The company sells 10 paintbrushes a day and needs 8 days to order, receive and display them, it has a recorder point of 80 brushes. It would reorder brushes once inventory on hand reaches 80. By the time brushes from that order are placed on shelves (8 days later), stock on hand will be 0, and the new stock will replenish the inventory.

This strategy is proper only when the company has a steady customer demand of 10 paintbrushes daily and its takes exactly 8 days to complete all stages in the ordering process. This does not normally occur. It customers buy 15 brushes per day during the month, the company would run of stock in 5-1/3 days and be with out

brushes for 2-2/3 days. An order takes 10 days to process; Handy would have no brushes for 2 days, despite correctly estimating demand.





For a retailer interested in keeping safety stock the reorder formula becomes:

Reorder point = (usage rate x lead time) + Safety Stock

Suppose the company decides on safety stock of 30 percent for pain brushes; its reorder is (10x8) + 0.30x80)= 80 + 24 = 104. The company still expects to sell an average of 10 brushes per day and received orders in an average of 8 days. The safety stock 24 extra brushes is kept on hand to protect against unexpected demand or a late shipment.

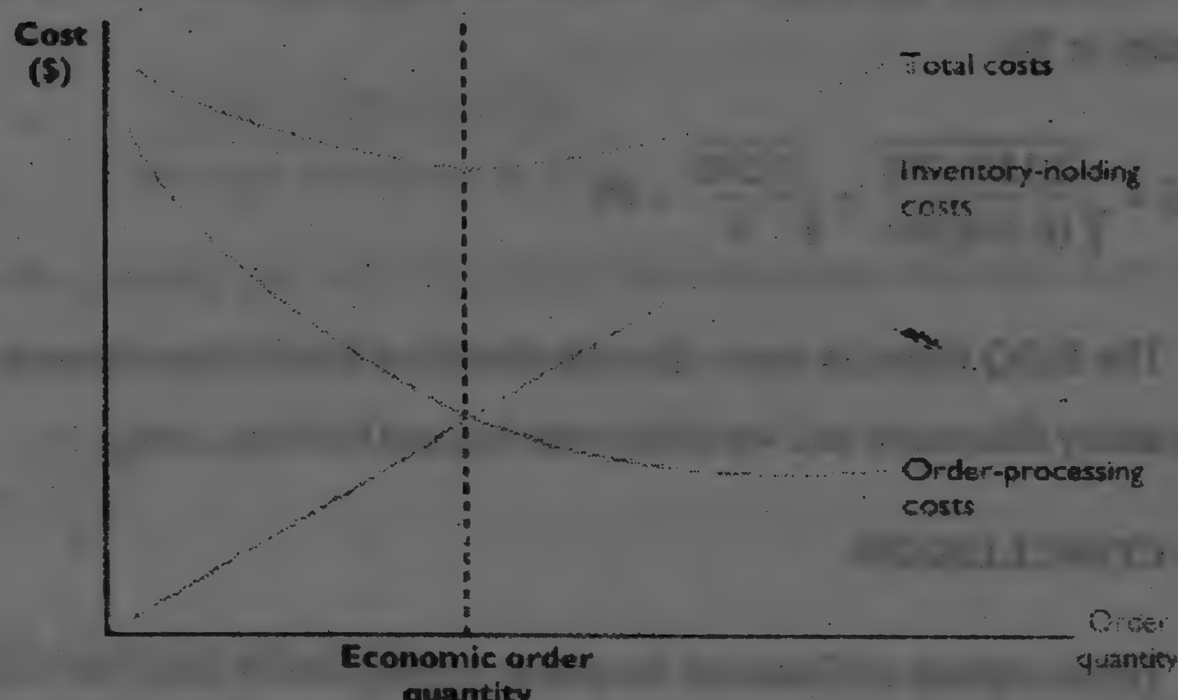
By combining a perpetual inventory system reorder point calculations ordering can be computerized and a automatic reordering system can be mechanicall

activated when stock on hand reaches the reorder point. However intervening by a buyer or manager must be possible, especially if monthly sales fluctuate greatly.

3.5 HOW MUCH TO REORDER

A firm placing large order generally reduces ordering costs but increases inventory holding costs. A firm placing small orders often minimizes inventory holding costs while ordering costs may rise (unless EDI and a OR inventory system are used).

Economic Order Quantity (EOQ) is the quantity per order (in units) that minimizes the total costs of processing orders and holding inventory. Order processing costs include computer time, order forms, labour, and handling new goods. Holding costs include warehousing, inventory investment, insurance, taxes, depreciation, deterioration, and pilferage. EQO calculations can be done by large and small firms.



Order Processing costs drop as the order quantity (in units) goes up because fewer orders are needed for the same total annual quantity, and inventory holding costs rise as the order quantity goes up because more units must be held in inventory

and they are kept longer periods. The two costs are summer into a total cost curve. Mathematically the economic order quantity is

$$EOQ = \sqrt{\frac{2DS}{IC}}$$

Where,

EOQ = quantity per order (in units)

D = annual demand (in units)

S = costs to place an order (in Rs)

I – percentage of annual carrying cost to unit cost

C – unit cost of an item (in Rs)

AB Limited estimates it can sell 150 power tool sets per year. They cost Rs.920 each. Breakage, insurance, tied –up capital, and pilferage equal 10 percent of the costs of the sets (or Rs. 9 each). Order costs are Rs. 25 per order. The economic order quantity is 29:

$$EOQ = \sqrt{\frac{2(150)(25)}{(0.10)(90)}} = \sqrt{\frac{7,500}{9}} = 29$$

The EOQ formula must often be modified to take into account changes in demand, quantity discounts and variable ordering and holding costs.

3.6 CONCLUSION

Three aspects of financial inventory management integrate value and unit control concepts: stock turnover and gross margin return on investment, when to reorder, and how much to reorder. A reorder point calculation – when to reorder – includes the retailers usage rate, order lead-time and safety stock. The economic order quantity – how much to reorder – shows how big order an order to place, based on both ordering and reordering.

3.7 CHECK YOUR PROGRESS

1. **What is GMROI?**
2. **Whats the formula for Re-order level?**
3. **What are the components of GMROI?**
4. What do you mean by EOQ?
5. What are the components and formula of EOQ?

3.8 ANSWER THE CHECK YOUR PROGRESS

1. Gross Margin Return on Investment is the relationship between the gross margins in values (total value operating profits) and the average inventory investment (at cost) by combining profitability and sales to stock measures.
2. Reorder point = Usage Rate X Lead time
3. GMORI = $$\frac{\textit{Gross Margin (in Rs)}}{\textit{Net Sales}} \times \frac{\textit{Net Sales}}{\textit{Average Inventory}}$$

$$= \frac{\textit{Gross Margin (in Rs)}}{\textit{Average Inventory at cost}}$$

4. EOQ is the quantity per order (in units) that minimizes the total costs of processing orders and holding inventory.
5. $$EOQ = \sqrt{\frac{2\,DS}{2C}}$$

3.9 QUESTIONS AND EXERCISES

1. The FIFO (First In First Out) method seems more logical than the LIFO (Last In First Out) method, because it assumes the first merchandise purchased is the first merchandise sold. So why do more retailers use LIFO.
2. Define the concept of store reordering merchandise in retailing

3. Shore notes on stock turnover and gross margin return on investment
4. Briefly explain there are following
- Reorder point
- Reorder time
- Reorder level

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UNIT IV
STORE PURCHASING AND RECEIVING

UNIT STRUCTURE

UNIT OBJECTIVES

This chapter should explain you to understand and to explain

- To explain the preparing and receiving the purchase order in retail store
- To provide a basic understanding of ordering new merchandise by store manager
- To provide the details of processing of invoice, central billing and freight regarding to purchasing order by retail store

4.1 INTRODUCTION

The Purchase Order shall be used for all purchases by retail stores and other outlets for departments on retail accountability and for warehouses. All other outlets shall use Purchase Order and Receipt to order and control merchandise.

4.2 PURCHASES - RETAIL OUTLETS AND CENTRAL BILLING: ORDERING MERCHANDISE

The department supervisor will comply to stock control requirements as directed in the retailer Policy and Procedures Manual, Merchandising. Where stock levels indicate a requirement for additional merchandise, the Purchasing Clerk will take action as follows:

1. Prepare a PO listing all the required information such as supplier, terms, date originated, shipping instructions, items and quantity ordered, cost and sell price, and any special instructions;
2. If the supplier offers a cash discount for prompt payment or offers dated terms, attach either a red discount or green dated invoice tag to the PO. It is important that POs with special terms be clearly identified for special action apart from the routine document stream. These special terms include discounts for prompt or early payment and single or multiple payments over a specified period of time. Identification of POs with these special terms is done by affixing a coloured tag to the PO thereby immediately alerting each person during the processing and payment steps to the requirement for special action;
3. Total the PO at selling price and enter the totals and the PO number on the Open-to-Buy portion of the white copy of the PO;
4. Enter date originated, supplier, and department number against PO number in PO control register and
5. Pass completed POs to the manager.
6. The manager will then:
   a) Review the PO for accuracy, markup, and quantity ordered;
   b) Adjust the quantities ordered if required. Ensure changes at retail are noted on the white copy of the PO;
   c) Enter the cancellation date for the order on the PO;
   d) Sign the PO and pass it to the Purchasing Clerk/Stock Control Clerk.

4.3 ORDERING NEW MERCHANDISE

The department supervisor or purchasing clerk will:

Prepare a PO, listing all the required information such as supplier, terms, date originated, shipping instructions, items and quantity ordered, cost price only, and any special instructions; Retailer has standardized their supplier order forms for various departments. The order form is organized by department and includes item descriptions and the cost prices and retail prices. The total cost and retail prices will be indicated on the copy of the order form that is subsequently processed with the purchase order and the invoice, through the invoice register. Instead of transcribing all the information on the order form to the purchase order, only the totals shall be carried forward to the purchase order. The purchase order shall be annotated with the words "as per attached". A copy of the order form with retail values will be attached to the purchase order and verified as per normal by the prior to posting.

If the supplier offers a cash discount for prompt payment or offers dated terms, attach a red discount or a green dated invoice tag to the PO; Total the PO at selling price and enter the totals and the PO number on the Open-to-Buy portion of the white copy of the PO; Enter the date originated and the supplier and department number against the PO number in PO control register; and Pass the completed PO to the store manager.

The store manager will then:

1. Review the PO for accuracy;
2. Enter the cancellation date for the order on the PO;
3. Tear off the right hand "Open-to-Buy" strip of the white copy and record the totals in the Open to Receive Register; and
4. Sign the PO and pass to Purchasing Clerk/Stock Control Clerk.

Receiving

The receiving supervisor will:

1. Receive all 3 copies of the PO from Stock Control Clerk (with carbon intact);
2. Place the PO on the Open File in alphabetical order by supplier for each department;
3. Receive the merchandise from the carrier;
4. Count the number of pieces and check for visible damage;
5. Sign the delivery slip annotating any damage or shortage, obtain the driver's signature acknowledging damage or shortage as the case may be and complete a Loss and Damage Claim Form.
6. Stamp or annotate the delivery slip "subject to concealed damage";
7. Obtain the applicable PO from the Open Order File;
8. From the detail on the way bill/delivery slip, complete the information in the Report of Goods Received (RGR) and assign an RGR number to the shipment, and then enter this number on the way bill/delivery slip and PO (all 3 copies);

If the shipment is received:

1. Collect (FOB supplier), forward the way bill/delivery slip to Purchasing clerk for payment with the sales/department indicated on waybill.
2. Collect (FOB supplier) but the carrier insists on cash payment at the time of delivery, payment may be made from petty cash with receipt for payment being obtained from carrier's driver.
3. Prepaid, attach the way bill/delivery slip to the PO;

4.4 RECEIVING MERCHANDISE ON THE SALES FLOOR

The department supervisor will:

1. Receive the pink copy of PO with merchandise from the Receiving Section;
2. Advise the manager of any discrepancy;
3. Sign the appropriate receipt block on the pink copy of the PO;
4. Annotate the Basic Stock Control Sheet as directed in the Policy and Procedures Manual, Merchandising and
5. Pass the pink copy of the PO to the Purchasing/Stock Control Clerk.

PROCESSING OF INVOICES

Upon receipt of the invoice, the retail Invoice Clerk will:

a. Date stamp the invoice;
b. Check payment terms and attach special terms tag if applicable;
c. Check for trade discounts (deducted from invoice), delivery terms, etc;
d. Search the "PO/Invoice Pending File" for the applicable PO:

4.5 CENTRAL BILLING

Retailer has made arrangements with certain suppliers to have merchandise orders invoiced and paid centrally. The purpose of this program is to obtain more favourable pricing from the various suppliers. Central billing invoice procedures are as follows:

1. The supplier forwards an invoice to retailers for the merchandise shipped to the bases/stations;
2. Retailers issues payment to the supplier and debits the base/station customer account;
3. A copy of the invoice is stamped with the retailer stamp, and the amount to be paid by the base/station is annotated on the invoice; and

4. A copy of the invoice is forwarded to the base/station.

Request for Credit and credit note procedures are summarized as follows

a) When the invoiced shipment was not received, or the merchandise was short-shipped or damaged, the manager shall raise a Request for Credit as per normal.

b) Depending on the supplier, the manager will forward request for credits directly to the supplier.

c) The supplier will issue a credit note to retailers, who will deduct the amount from the next payment to the supplier, and credit the base/station customer account;

d) A copy of the credit note with the retailers stamp will be forwarded to the base/station manager, who will process the credit note in the normal manner.

4.6 FREIGHT

The cost of shipping merchandise from the suppliers point of origin to the base is considered a freight cost and shall be charged to "Freight" (by department as applicable) which forms part of the "laid-in cost" of the merchandise. When the supplier ships the merchandise "prepaid", there is no individual freight charge as the supplier has included the cost of shipping the goods in his invoice price. When the supplier ships the merchandise to the base on a "collect" basis, the freight costs are charged to Freight and shall be processed under the Direct Payment Control Method. Under this system, the freight costs are not recognized until the invoice is received and processed through the invoice register. The charge from the invoice register is to the freight account of the applicable department and is shown at cost only as the retail value is included in the amount shown on the invoice register when the supplier's invoice is processed.

4.7 CONCLUSION

After the merchandise is purchased, the merchandise buyers of multiple chain of stores have to look into the differences in the sales potential of various stores as well as the characterstics of the customer base and then allocate merchandise to various stores.

4.8 CHECK YOUR PROGRESS

1. What is purchase order?
2. What are the steps involved in receiving merchandise?
3. What is the purpose of central billing?
4. What is considered as frieght in Retailing?

4.9 ANSWER TO CHECK YOUR PROGRESS :

1. The PO shall be used for all purposes by retail stores and others outlets for departments on retail accountatrility and for warhouses.
2. Receive the copy, Adivse the manager, sign appropriate receipt and pass the copy.
3. The purpose of this central billing program is to obtain more favourable pricing from the various suppliers.
4. The cost of shipping merchendise from the suppliers point of orgin to the base is considered a frieght cost and shall be charged to "Frieght" which forms part of the 'Land-in-cost" of the merchandise.

4.10 QUESTIONS AND EXCERISES

1. Briefly explain the process of purchasing and receiving order goods in retail stores.
2. What are the steps involved in central billing process?

3. What are the issues related to freight in retail purchasing?

4. What are the functions of store manager, receiving supervisors and department supervisors in relation to purchasing and receiving?

4.11 SUGGESTED READINGS :

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5. Retail Management, ICFAI centes for Management Research Publications.

UNIT V

SELF SERVICES AND CHECK OUT OPERATIONS IN RETAIL STORE

UNIT STRUCTURE

UNIT OBJECTIVES

This chapter should enable you to understand and explain

- To provide a basic understanding of the self service in retail store
- To provide a detailed insight into services mix in retailing
- To provide the understanding the check out operations in retail store
- To provide a detailed insight into shoplifting in retail store

1.1 INTRODUCTION

Self-Service: The New 'Essential Convenience'

Waiting in line can be frustrating no matter where we are. But the most frustrating wait for Consumers : cooling our heels at local department or Division of Motor Vehicles (DMV) offices, closely followed by waiting to make purchases at retail outlets. Although the DMV was number one on their "wait we hate the most" list, respondents in the "NCR Queue Review" survey dislike waiting for service in many other areas affecting daily life. Ranking third, fourth and fifth on the list were

registering at clinics or hospitals; checking in for airline flights at airports; and ordering at fast-food restaurants or deli counters. The top reasons for consumers' frustration with waiting for service or waiting in line were: the lack of employees able to assist them (44 percent), a concern for being late (39 percent), not knowing how much longer they'd have to wait (33 percent) and the time it takes for each person ahead of them to finish (19 percent).

A day or two saved is quality time earned

The survey found that consumers figure they are spending more than two days per year waiting in line for service — time they believe could be better spent with friends or family or other forms of leisure. Nearly half (49 percent) of the respondents estimate they waste between 30 minutes to two hours each week waiting for service. Younger consumers seem especially cognizant of their lost time, with one-sixth (16 percent) of those aged 18-24 saying that in a typical week they waste two hours or more standing in line or waiting for service. When asked how they would use time saved by using self-service technologies instead of waiting in line, spending more time with friends or family was the clear winner from a list of 10 possible alternative activities.

Self-service to the rescue

Consumers are seeking and embracing alternatives, such as self-checkout and other self-service technologies; to reduce their wait and help them get out the door faster. Thirty-nine percent of the survey respondents said they would be extremely or very interested in using a self-service kiosk or other self-service device if one was available to help them complete the activity at hand more quickly. The availability of self-service can influence where a consumer goes for goods or services, with 43 percent of respondents saying they have chosen one provider of goods or services over another because it offered self-service. The survey found that minorities are

even more inclined toward self-service technologies, with 55 percent of African-American and 57 percent of Hispanic survey respondents saying they have chosen one provider of goods or services over another because it offered the option of self-service.

The New Rules of Retail Design

A perfect storm is swirling through retail: an increasingly crowded and complex field of products, a populace that is more intelligent and demanding with each passing day, and technology that tries to make sense of it all. In the wake of this storm is the retailer, who must learn and quickly how to bring all of these things together in a way that makes sense. New technologies make it possible, for the first time, to reach those individual customers with individual experiences. Digital signage, self-service and, perhaps most importantly, the rise of multi-channel retailing are demanding a new holistic view when it comes to the design of in-store experiences.

Retail Marketing Sales Operation and Management

Retailing includes all the activities involved in selling goods and services directly to final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organization selling to final consumers – whether it is a manufacturer, wholesaler or retailer –is doing retailing. It does not matter *how* the goods or services are sold (by person, mail, telephone, vending machine, or internet) or where they are sold (in a store, on the street, or in the consumers home).

Types of retailers

Consumers today can shop for goods and services in a wide variety of retail organizations. These are store retailers, non-store retailers, and retail organization . Perhaps the best – known type of retailer is the departmental store. Retail – store types pass through stages of growth and decline that can be described as the *retail life*

cycle. A type emerges, enjoys a period of accelerated growth, reaches maturity, and then declines.

Levels of service

Conventional retail stores typically increase their services and raise their prices to cover the costs. These higher costs provide an opportunity for new store forms to offer lower prices and less service. New store types meet widely different consumer preferences for service levels and specific services. Retailers can position themselves as offering one of the four levels of following services.

1. Self – service:

Self – service is the cornerstone of all discounts operations. Many customers are willing to carry out their own locate – compare – select process to save money.

2. Self – selection:

Customers find their own goods, although they can ask for assistance.

3. Limited service:

These retailers carry more shopping goods, and customers need more information and assistance. The stores also offer services (such as credit and merchandise – return privileges).

4. Full service:

Sales people are ready to assist in every phase of the locate-compare-select process. Customers who like to be waited on prefer this type of store. The high staffing cost, along with the higher proportion of specially goods and slower-moving items and the many services, results in high-cost retailing.

Although the overwhelming bulk (97 per cent) of goods and services are sold through stores, non-store *retailing* has been growing much faster than store retailing. Non-store retailing falls into four major categories : direct selling, direct marketing (which includes telemarketing and Internet selling), automatic vending, and buying services.

1. *Direct selling* is also called multi-level selling or network marketing. Well known one-to-one selling is AVON, Electrolux etc. In one-to-many, a salesperson goes to the home of a host who has invited friends; the salesperson demonstrates the products and takes orders. Pioneered by Amway, the multilevel (network) marketing sales system consist of recruiting independent businesspeople who act as distributors. The distributors' compensation includes a percentage of sales of those the distributors recruits as well as earnings on direct sales to customers. These direct selling firms, now finding fewer consumers at home, are developing multi-distribution strategies.

2. *Direct marketing* has roots in direct mail and catalog marketing. It includes telemarketing (1-800-FLOWERS), television direct-response marketing (Home shopping network), and electronic shopping (Amazon.com. Autobytel.com). Of these, electronic shopping experienced a major take off in the late 1990's as consumers flocked to dot-com sites to buy books, music, toys, electronics, and other products.

3. *Automatic vending* is used for a variety of merchandise, including impulse goods like cigarettes, soft drinks, coffee, candy, newspapers, magazines, and other products like hosiery, cosmetics, hot food etc.

4. *Buying service* is a store less retailer serving a specific clientele – usually employees of large organizations – who are entitled to buy from a list of retailers that have agreed to give discounts in return for membership.

Corporate Retailing

Although many retail stores are independently owned, an increasing number are part of some form of corporate retailing. Corporate retail organizations achieve economies of scale, greater purchasing power, wider brand recognition, and better-trained employees.

Categories of customers

Generally the customers can be grouped into three main categories. These are:

1. *Bargain hunters* visit retail store, pick over last years' holiday inventory, and then disappear for months.
2. *Casual shoppers* chat up with sales staff and buy sometimes.
3. *Devoted customers*, loyal clientele, love the store, buy often, and refer their friends to you.

Marketing Decisions

In the past retailers held customers by offering convenient location, special or unique assortments of goods, greater or better services than competitors, and store credit cards. Today, national brands are found in department stores, in their own shops, in merchandise outlets, and in off-price discount stores. In their drive for volume, national – brand manufacturers have placed their branded goods everywhere. The result is that retail – store assortments have grown more alike.

Customers have become smarter shoppers. They do not want to pay more for identical brands, especially when service differences have diminished; nor do they need credit from a particular store, because bank credit cards are almost universally accepted. Retailers marketing decisions can be examined through target market, product assortment and procurement, services and store atmosphere, price, promotion, and place.

Target market

A retailer's most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decision on product assortment, store décor, advertising messages and media, price, and service levels.

SERVICES AND STORE ATMOSPHERE

Retailers must also decide on the services mix to offer customers:

1. Pre-purchase services include accepting telephone and mail orders, advertising, window and interior display, fitting rooms, shopping hours and fashion shows.
2. Post purchase services include shipping and delivery, gift-wrapping, adjustments and returns, alterations and tailoring, installations and engraving.
3. Ancillary services include general information, check cashing, parking, restaurants, repairs, interior decorating, credit, rest rooms, and baby-attendant service.

The services mix is a key tool for differentiating one store from another, so is atmosphere. Atmosphere is another element in the store arsenal. Every store has a physical lay out that makes it hard or easy to move around. Every store 'has a look'. The store must embody a planned atmosphere that suits the target market and draws consumers towards purchase.

Price decision

Prices are a key positioning factor and must be decided in relation to the target market, the product-and-service assortment mix, and competition. All retailers would like to achieve high volumes and high gross margins, but the two usually do not go together. Most retailers fall into the high-mark up, lower volume group (fine

specialty stores) or the low-mark up, higher volume group (mass-merchandisers and discount stores). Retailers must also pay attention to pricing tactics. Most retailers will put low prices on some items to serve as traffic builders or loss dealers. They will run storewide sales. They will plan markdowns on slower-moving merchandise.

Promotion decision

Retailers use a wide range of promotion tools to generate traffic and purchases. They place ads, run special sales, issue money saving coupons, and run frequent shopper-reward programmes, in-store food sampling, and coupons on shelves or at checkout points. Each retailer must use promotion tools that support and reinforce its image positioning.

Place decision

Retailers are accustomed to saying that the three keys to success are location, location, and location. Customers generally choose the nearest bank and gas station. Department-store chains, oil companies, and fast food franchisers exercise great case in selecting locations. The problem breaks down into selecting regions of the country in which to open outlets, then particular cities, and then particular sites. Retailers can locate their stores in the central business district, a regional shopping center, a community shopping center, a shopping strip, or within a large store. In view of the relationship between high profits and high rents,, retailers must decide on the most advantageous locations for their outlets. They can use a variety of methods to assess location, including traffic counts, surveys of consumer shopping habits, analyses of competitive locations. Retailers can assess a particular's stores sales effectiveness by looking at 4 indicators.

1. Number of people passing by on an average day.
2. Percentage who entered the store.

3. Percentage of those entering who buy
4. Average amount spent per sale.

The retail store customers who were offended when they had to submit to having their purchases checked against the receipt at the door before exiting. Many felt it was a simple intrusion while others felt it was a total violation of their privacy or civil rights. Some customers even felt like they were being falsely detained, unjustly accused of theft, and wanted to file a lawsuit. Not all of the complainants were from overly sensitive customers. Obviously, it was the bag checker's mannerism that made them feel forced to submit to the search that was bothersome. It must be a widespread concern because received several calls from the media inquiring about the appropriateness of this bag check process.

5.2 CHECK OUT OPERATIONS IN RETAIL STORE

Bag Check Policy

What these consumers are complaining about is a local store policy where an employee or security guard will check customer purchases against their receipt. This radical loss prevention tactic is usually used in high-ticket specialty stores who have experienced large inventory losses. For example, stores that sell computer hardware and software products, small handheld electronics, music CDs, and videotapes might employ this method. This bag inspection applies to store purchases only and not to other items you might be carrying. The store management knows that the door bag check procedure is not consumer friendly, but must believe it is a necessary step.

Can Merchants Do This?

The bag inspection should occur past the last point of payment solely for the purpose of verifying the sales transaction that just occurred. The door bag checker is looking to see that the cashier correctly charged for all items in the shopping bag or cart. Once this is done, the bag checker makes a distinctive mark on the receipt to indicate that it was checked. A merchant is free to put procedures in place to help curb

their losses due to theft. It is estimated that 11 billion of value are lost every year due to shoplifting alone. These unchecked losses will soon put many retailers out of business unless they take some proactive step. This bothersome procedure is very effective in preventing employee theft, shoplifting, and refund fraud.

So what's all the fuss about? Merchants already have lots of anti-theft procedures in place that consumers endure. There are video surveillance cameras and undercover officers that watch the retail shop. There are little plastic devices attached to soft goods called Electronic Article Surveillance tags (EAS) that must be removed by a salesperson to prevent an alarm from going off at the exit. There are items displayed under lock and key that you can't access without assistance. There are items where retailer must take a paper ticket to the cashier to have the item brought to the checkout stand. None of these procedures are consumer friendly, but are deemed necessary by some retailers for survival. After reading this, if this procedure is still offensive to consumers they should shop elsewhere.

Are Door Bag Searches Legal?

1. Yes, as long as the inspection is voluntary.
2. No, if the bag check is involuntary or coerced.

This is a rather fine legal distinction that is subject to misunderstanding and abuse. Basically, nothing in the law gives the merchant the right to detain a customer for the purpose of searching a shopping bag unless there is a reasonable suspicion of retail theft. A customer can refuse to have their bag checked and simply walk out the door past the bag checker. Hopefully the bag checker has been trained to know that they cannot force anyone to submit to a bag search without cause. This is important because the expectation of the bag checker is that all bag contents have been purchased. The worst thing that could happen is that an aggressive bag checker would forcibly detain or threaten a customer who refused to comply with the voluntary search

How Should the Bag Check Proceed?

The bag check procedure should be routinely handled just like the checkout process. Most customers don't give it another thought as long as there isn't a long delay. It is helpful if the bag checker is non-threatening in manner and appearance. Many stores make the mistake of placing someone at the door that looks and acts like a bouncer with aggressive body language that sends the wrong message. Not only does the bag checker help catch mistakes and deter theft, but also aids in the return procedure. The special mark that is made on the receipt is a signal to the refund desk that the item passed by the door checker after being purchased. Unmarked receipts suggest that the items might be stolen or purchased at a different store. This could adversely hamper speedy refund processing.

5.3 SHOPLIFTING: RETAIL THEFT OF MERCHANDISE

Shoplifting is a common crime that occurs when someone steals merchandise offered for sale from a retail store. Shoplifting from retail stores costs merchants an estimated loss of 13 billion dollars per year. To be convicted of shoplifting, one must "intend" to permanently deprive the merchant of the value of the merchandise. Merchants are often confused about the procedures for lawfully detaining someone suspected of theft from their store.

SHOPLIFTING: PROBABLE CAUSE STEPS

To establish a solid base for **probable cause**, and prevent false arrest claims, there are six universally accepted steps that a merchant should be follow before detaining someone suspected of shoplifting:

1. It must see the shoplifter approach your merchandise
2. It must see the shoplifter select your merchandise
3. It must see the shoplifter conceal, carry away or convert your merchandise
4. It must maintain continuous observation the shoplifter
5. It must see the shoplifter fail to pay for the merchandise
6. It must approach the shoplifter outside of the store

Step 1:

Retailer must see a shoplifter enter your store or approach a display and see that the customer does not have any merchandise in their hand or that they haven't retrieved a item from their own purse, bag, or pocket. This step prevents a common mistake that occurs when a customer brings an item back to the store for a return and does not check in at the return desk first. If detain someone after seeing them replace their own merchandise into their pocket or bag, there could be subject to a false arrest claim even though it is a seemingly honest mistake. Many false arrest claims are filed because retailers missed this important, but basic, first step.

Step 2:

Retailer must see the shoplifter select the merchandise. Store employees can misunderstand when they see a customer innocently put an item into their pocket or purse and not realize that the customer had brought the item into the store with them for comparison purposes. If can positively and honestly state that the retailer saw the shoplifter remove the merchandise from the retailer display prior to concealing it, then the have a strong foundation for proof of shoplifting.

Step 3:

It must see the shoplifter conceal, carry away, or convert the retail merchandise. This includes concealment in bags, strollers, or on a person. Shoplifting can occur by wearing articles in plain view once the tags are removed. Shoplifting can occur by conversion, for example, when consuming food prior to being purchased. An exception to the observation rule is inside a fitting room where observation is impossible. Once inside a fitting room store merchandise can be concealed almost anywhere. The important factor is to know what items go into the fitting room and what items don't come out in plain view. Of course, the fitting room must be checked beforehand to see if it is clear of merchandise and after the suspected theft exits to see that the missing items were not simply discarded.

Step 4:

It must maintain continuous surveillance of the shoplifter. If store policy is to detain and apprehend all shoplifters, then must adhere strictly to this step. Experienced shoplifters will try to dump the concealed merchandise, without the retailer knowledge, if they believe they have been observed. Many states have adopted merchant statutes to protect the retailer against this trick. The best approach, if lose sight of a shoplifter, is to make presence know to the shoplifter and give them a chance to dump merchandise and leave store without a word being said. Sometimes, loss prevention personnel will walk nearby and turn up their mobile radios to alert the shoplifter that they are plain-clothes security. Another technique is to make a storewide P.A. announcement for security to come to the Children's department,

Step 5:

It must see the shoplifter fail to pay for merchandise. Typically, a shoplifter will walk out of store, past all cash registers, without making any attempt to pay for the concealed merchandise. This is an important element to prove "intent" later in court, if necessary. Sometimes, shoplifters will go through the checkout line and pay for other items but not for the concealed item. It is important to observe that the concealed item is not retrieved and paid for at the checkout. It is also important to verbally confirm with the cashier that the concealed item was not paid for either. Sometimes there is a reasonable explanation for removing merchandise, seemingly without paying, so retailer must be aware of the practices within various retail settings that would allow this to occur. Remember, some shoplifters are clever and will purchase an item, obtain a receipt, and dump it in their car. Next they return to the store to steal the exact same item. If stopped they can produce a receipt and even get the cashier to swear the item was purchased.

Step 6:

It must approach the shoplifter outside of the store. Although not technically necessary, following this step eliminates all possibility that the shoplifter

still intends to pay for the stolen product. A few courts have held that detaining someone for shoplifting inside a retail store does not establish the criminal intent of theft. However, in several states shoplifters can be detained once they have concealed the merchandise. When approaching a shoplifter outside of the store always have a least one trained employee as a back up and witness. There is safety in numbers and most shoplifters will cooperate if they believe fighting or running is futile. Always have at least one more loss prevention officer present than the number of shoplifters. Most shoplifter apprehensions should be accomplished with no force or if necessary, minimal force like touching or guiding. Professional loss prevention agents sometimes will use handcuffs to take someone into custody, if they are first trained how and when to legally apply them properly.

If follow these six steps, should have no problem with proving criminal intent to shoplift and be able to establish probable cause to detain a shoplifter. It should also be well insulated from civil liability if followed these six steps correctly.

5.4 SHOP LIFTING: DETENTION & ARREST

Shoplifter Detention

In an effort to prevent theives from walking out the door without paying for merchandise, sometimes it becomes necessary to detain and arrest those suspected of shoplifting. Retailers sometimes employ plain-clothes loss prevention agents specially trained to detect, apprehend, and arrest shoplifters. Some retailers believe that arresting shoplifters is the greatest deterrent as the word is spread by store employees and gets out on the street. If a detention and arrest policy is desirable, it is critical for the merchant to understand the local laws of arrest before confronting anyone. Remember that the laws of the state have a different legal impact than store policy. What follows are some good "rule of thumb" guidelines to follow in most situations:

The Decision

The decision to approach and confront someone suspected of committing theft should not be taken lightly. It's critical to provide special training to anyone charged with the responsibility of apprehending shoplifters. Some states have "Merchant Statutes" that give the store operator some limited liability protection if they approach a suspected shoplifter in good faith and the stop is based on a reasonable belief that shoplifting had occurred. The detention process can evolve into an arrest if the suspected shoplifter is taken into custody for the purpose of arrest. The definition of custody means not being free to leave (i.e. while handcuffed). In jurisdictions that do not have the protection of a merchant's statute, a store operator must make a citizens arrest without any liability protection.

The Approach

To approach a person suspected of shoplifting will necessarily involve a confrontation. This confrontation can go smooth and professional or become hostile and aggressive. It is a good policy to have extra personnel involved for back-up and for witness purposes. A good rule is to out number the suspected shoplifter by a least one. The extra personnel usually prevent the suspect from fighting or attempting to flee. A female back-up is best if a female suspect is being detained. The approach should always occur from the front, if possible. The store representative should immediately and clearly identify themselves and it is helpful to have some form of identification such as a uniform, or name tag to avoid confusion over who are or what authority possess. Plain-clothes loss prevention agents should have an authentic-looking ID card or badge in a wallet to present during the confrontation so not to be confused with a mugger.

The Detention

The detention process starts when the customer is initially confronted. However, an unproductive stop can and should be terminated while still outside, along

with a sincere apology for the confusion. If the suspected shoplifter has unpaid merchandise at the time of the detention, ask them to, "please return to the store so we can clear up this matter." If act professional and with back-up, ninety-eight percent of the time the shoplifter will comply and go anywhere the retailer direct, without fanfare.

Shoplifter Processing

Once make it to a private office the shoplifter must be processed within a reasonable time period and in a reasonable manner. Sometimes the timing is delayed by slow response time of local law enforcement. There should always be at least two store representatives present at all times and one should be the same sex as the shoplifter for obvious reasons. One of the first steps is to make sure the setting is safe and the shoplifter is not carrying accessible weapons. This is accomplished by a simple external "pat down" or by separating handbags, packages, and other containers from the immediate grasp of the shoplifter. A pat down is not a license for a search and should be conducted by a person of the same sex. Searching pockets and handbags might be illegal in the retailer state, so leave that job for the police upon arrest.

After the safety issues are resolved, the retailer should ask the shoplifter to voluntarily retrieve and return all the stolen merchandise. Depending on jurisdiction, may be allowed to question the shoplifter in others might be required to call the police before questioning. Most shoplifters will cooperate and hope to be released. In the case of young children, the elderly, or those with diminished mentally capacity, may wish to release the shoplifter to relatives instead of the police.

Written Reports

If the store policy is to make detentions and arrests, then written reports are required to record the shoplifting event. These reports will be vital for use later on in both criminal and civil courts. Reports usually include an in-house loss prevention report that captures all the important identification data like name address, date of

birth, social security number of the shoplifter. The report will provide a narrative of the facts that establishes the probable cause elements, itemizes all stolen merchandise, lists all witnesses, and includes any contemporaneous statements made by the shoplifter. All reports including the police report or case number, if any, should be kept in a secure file cabinet for a least two years or until the local statute of limitations runs for both criminal and civil filings.

5.5 FALSE ARREST: SHOPLIFTING

A **retail store** makes a choice when it decides to apprehend and arrest those who attempt to steal their merchandise. Making that choice creates a legal responsibility of doing it correctly. This involves the proper hiring, training, and supervising those who make shoplifter apprehensions and arrests. In the retail loss prevention profession, the possibility of falsely accusing and detaining a customer for theft is a business reality that must be addressed. The word "false arrest" is very distasteful to the retail industry, so it has created several alternate words to describe the event. Less offensive words are used instead like "non-productive detention" or "unproductive stop" or "investigative detention". All of these words have been used in place of false arrest so not to seemingly admit liability.

Merchant Statute

Many states have enacted legislation to protect the merchant from such false arrest claims by allowing the store to make "investigative detentions" of a customer suspected of shoplifting. In these jurisdictions, the law allows certain latitude or "merchant's privilege" if the merchant has a reasonable belief that a customer has stolen merchandise. In many jurisdictions, law allows the merchant to detain a customer for a reasonable time, and in a reasonable manner, for the purpose recovering the stolen merchandise or for summoning the police. The problem with these statutes is that they are vague as to what "reasonable" means and what the word "detain" means. Some merchants have overly relied on this statutory language to protect them from lawsuit only to discover later that it would not relieve them of liability.

Unreliable Witnesses

In most jurisdictions, a reasonable belief that someone has shoplifted does not include a stranger's observation and report. Customers are often unreliable in what they report and it is considered unreasonable to detain and accuse someone of theft based solely on a customer observation. Besides, the customer and shoplifter could be working together to set up the store for a false arrest claim. Untrained sales associates can also be unreliable in their observations. Many store chains do not allow apprehensions on the word of a sales associate alone.

Reasonable Detentions

While detaining someone, it must do so in a reasonable manner. Tackling and injuring a customer in the parking lot over suspected petty theft might be deemed excessive, especially if no other means of detention were attempted first. Detentions must also be for a reasonable time period. Holding someone for three hours while the retailer investigate a check, credit card, coupon, or refund fraud attempt is excessive. This business reality must be factored into the store policy of detaining shoplifters or releasing them after recovering the merchandise.

Hiring & Training

The best way to limit false arrest situations is hiring, training, and supervising competent staff. It is usually considered negligent management to have a policy of apprehension and arrest of shoplifters if the store personnel have no training on how to do so correctly. It is also negligent management if fail to supervise loss prevention staff and their reports that indicates violations of company policy. violation of the civil rights of customers, or use of excessive force.

Use of Force

It is usually considered negligence if a store employee uses excessive force when apprehending a suspected shoplifter. It requires special training to

understand how to routinely apprehend shoplifters while only using minimal force. Tackling, punching, and verbal abuse of shoplifters are never acceptable. Excessive or unreasonable use of handcuffs, leg restraints, chokeholds, or pain compliance holds are also inappropriate when dealing with those suspected of retail theft.

When retailer run the risk of a false arrest claim:

1. Don't observe the customer approach a display
2. Don't observe the merchandise being selected from the display
3. Don't see the merchandise being concealed, carried away or converted
4. Don't maintain continuous observation and the shoplifter dumps the item
5. Don't watch the check stand and verify the non-payment of the item
6. Don't detain the shoplifter outside the store (or at least past the last register)
7. Don't detain only the person directly responsible for the theft

To avoid other related claims:

1. Approach from the front (so the shoplifter doesn't think you're a robber)
2. Have at least one witness of the same sex present at all times
3. Have at least one more backup than the number of shoplifters
4. Clearly identify yourself as the store representative or security officer
5. State the reason for the detention and ask for the item back
6. Don't be afraid to immediately disengage and apologize if the retailer make a mistake
7. Listen for spontaneous utterances (i.e. "I forgot to pay for it")
8. Closely escort the shoplifter to a private office
9. Do not chase the shoplifter through the store
10. Always be polite and professional even if the shoplifter is not
11. Do not use excessive force (i.e. double lock handcuffs)
12. Do not make threats or exchange insults

13. Accommodate reasonable medical and handicap requests
14. Process the arrest swiftly according to store policy
15. Save, tag, and photograph the stolen merchandise as evidence
16. Cooperate with the police and appear in court, if necessary

Shoplifting Apprehension: Excessive Use of Force

Excessive Force

There were four uniformed security guards that were involved in the detention of this shoplifting suspect. Each of the security guards were younger, larger, and in better physical condition than the shoplifter.

The Wrong Approach

The shoplifter exited the store and was heading toward the parking lot. About two seconds later, two security guards ran full speed out of the store chasing the shoplifter. The noise for the guard's footsteps apparently startled the shoplifter and began to run as well. The shoplifter only managed about two steps when was hit with a flying-head-tackle by one of the guards.

Crisis Management

The storefront now was out of control. Bystanders were threatening the guard and many others were already on their cell phones calling the police. By now, store management had arrived and was trying to calm the hostile crowd and prevent them from attacking the brutal officer. This crisis could not have been handled any worse.

The first thing the store manager ordered was for the unpopular guards to disperse the crowd. The security guards made matters worse by being defensive about the handling of the incident and by threatening angry bystanders with arrest should they interfere.

The second order was to pick the injured suspect up off the ground and move him away from the entrance to the store. When the security guards complied, the wounds on the suspect became more apparent as blood dripped off his face. Up until this point no attempts were made by the guards to stop the man's bleeding. Once the suspect was half-standing and screaming for help, the angry guard tried to handcuff the man again.

5.6 EMPLOYEE THEFT : RETAIL LOSS PREVENTION

Employee Theft from a retail store is a term that is used when an employee steals merchandise, food, cash, or supplies while on the job. However, in the eyes of the law, employee theft is just theft...the elements of the crime are identical. To commit theft, the employee must "intend" to permanently deprive their employer of the value of the item stolen. Employee theft can occur just like shoplifting by concealing merchandise in a purse, pocket, or bag and removing it from the store. It can also occur by stealing cash, allowing others to steal merchandise, eating food, and by refund, credit card, or check fraud. Employee theft can sometimes be charged as embezzlement due to the trusted fiduciary status of the employee. All of these methods lead to loss of inventory (shrinkage) and/or profit for the merchant. Employee theft is an insidious crime because the merchant is paying a wage and benefits to the thief on top of paying for the cost of their dishonestly. Studies have shown that employees can do a lot more damage than shoplifters because they are trusted and have an insider's knowledge of store security measures. There is no real physical profile for a dishonest employee. Dishonest employees come in all shapes, sizes, ages, sexes, ethic backgrounds, religions, levels of education, and economic status. It simply cannot accurately determine who is likely to steal based on their demographic status alone. However, an employer can make reasonable assessments based on their conduct, integrity, and judgment. A person's past conduct, integrity, and judgment often provides the best indication of their future behavior. Retail store employees have a constant opportunity

to steal cash or merchandise...all they need is the desire and sufficient motivation to do so. What keeps most employees honest is moral character, loyalty, respect for the law and their employer, and the desire to be viewed as trustworthy. For others, the only barrier to dishonesty is the fear of getting caught. The employee thief risks getting fired, being arrested, jailed, and paying restitution. The criminal record and bad job reference will have a compounding effect that will follow them for years.

5.7 CONCLUSION

Preventing employee theft is a constant challenge for retailers. The industry knows that it must put systems in place to prevent or deter internal theft. To be effective, loss prevention systems must be designed to reduce the opportunity, desire, and motivation for employee theft. Basic loss prevention steps involve good procedures for hiring, training, and supervision of employees and managers. Procedures that are clearly defined, articulated, and fully implemented will reduce the opportunity, desire, and motivation for employees to steal.

5.8 CHECK YOUR PROGRESS

1. What is Retail life?
2. What are the levels of service?
3. What are the advantages of corporate retailing organisation?

5.9 ANSWER TO 'CHECK YOUR PROGRESS'.

1. Retail store types pass through stages of growth and decline that can be described as the retail life.
2. Self service, Self selection, limited service and full service.
3. Corporate retail organisations achieve economies of scale, greater purchasing power, wider brand recognition, and better trained employees.
4. Bargain hunters, causal shoppers and Devoted customers.

5.10 QUESTIONS AND EXERCISES

1. Briefly explain the self-service in retail stores in India.
2. Explain the Service mix in retailing in India
3. Explain the various ways of check out operations in retail stores.
4. Short notes on

   a) Shoplifting

   b) Detention and arrest

   c) False arrest

   d) Employee theft

5.11 SUGGESTED READINGS :

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UNIT VI
MANAGING CONSUMER COMPLAINTS IN RETAILING

UNIT STRUCTURE

UNIT OBJECTIVES

This chapter should enable you to understand and explain

1. To provide the basic steps for effective complaint management in retail store in India
2. To understand the complaint management checklist in retail store
3. To provide a detailed insight into key ingredients in effective consumer complaint management in retailing
4. To provide the recommendations for managing consumer complaints in retail store

6.1 INTRODUCTION

Today's consumers seek more than price bargains—they want useful purchasing information, high quality, reliable and safe products, dependable servicing, and fair sales practices. Above all, they want to know that companies are trading in good faith. A company's failure to fulfill these expectations can breed dissatisfaction

and antipathy, unless that business helps resolve resulting consumer complaints fairly and promptly.

In our global marketplace, where businesses compete both nationally and internationally, effective complaint management must be a priority for every business. The way a company reacts to complaints is a measure of its concern for the quality of its merchandise and services and of its desire for consumer satisfaction.

Markets are becoming more culturally diverse, more global in nature, and customers' expectations are changing. As the marketplace changes, staying close to the consumer is of increasing importance. Complaints are a critical form of communication between buyer and seller. They offer business an opportunity to correct immediate problems and they frequently provide constructive ideas for improving products, adapting marketing practices, upgrading servicing, or modifying promotional material and product information.

Government agencies encourage businesses to settle their own disputes directly and, if necessary, to make supplemental use of third-party complaint systems that often enlist the participation of business, consumers, and government. Then consumer protection agencies and the courts can devote their time and resources to responding to serious violations of law and problems solvable only by government action.

Recognizing the importance of responding fairly and efficiently to buyer disappointment in the marketplace, many businesses have established effective and innovative systems for resolving consumer complaints. However, not all companies have made effective complaint management a routine part of their business operations. Within any industry, those companies with a positive philosophy and reputation for

fair complaint management have a competitive edge. Effective complaint management leads to increased customer satisfaction, which in turn, yields greater brand loyalty.

This chapter discusses why it is in business' own interest to give a high priority to effective complaint management. It recommends practical procedures for reviewing and resolving consumer complaints and for using them as management and marketing tools.

6.2 BASIC STEPS FOR EFFECTIVE COMPLAINT MANAGEMENT:

i) Designate Location(s) to Receive Complaints

Consumers need to know where and how to file complaints or make inquiries. Therefore:

1. Select places and means (such as a toll-free number) to receive complaints that are visible and accessible to consumers.
2. Publicize the complaint system to encourage consumers to voice their dissatisfactions and to make apparent the good intentions of the company.

ii) Develop a System for Record keeping

Computerization can streamline the complaint management process, decreasing response times for consumers, eliminating the need for extensive paper files, and speeding report generation and analyses for top management.

1. Develop computerized or paper forms for recording, categorizing, and filing complaint records.
2. Design the system and/or use software to perform functions including:
   i. Communicating complaint data and analyses to top management;
   ii. Permitting swift identification and response when complaints should be reported to other departments or companies in the distribution network, or to law enforcement or regulatory agencies;
   iii. Providing market research through complaint trends;

iv. Enabling management to monitor the efficiency and effectiveness of the complaint management system.

iii) Process and Record Complaints

1. Log in the complaint and relevant data.
2. Categorize it for resolution and record keeping. Categories must be clearly defined and exclusive of one another.
3. Assign the complaint to one person for handling.
4. Forward the complaint to another level of authority, only when necessary.

iv) Acknowledge Complaint

Consumers do not register complaints with only a casual interest in their disposition. Complaining involves some inconvenience and, possibly, expense. Loyal customers with strong feelings are often involved. Therefore:

1. Talk directly to the customer by phone or in person whenever possible.
2. Use mailgrams or letters when necessary, but avoid impersonal form letters.
3. Take extra time, if needed, to help consumers with special needs, such as language barriers or disabilities.

v) Investigate and Analyze the Complaint

1. Be fair.
2. Get both sides of the story.
3. Keep records of all meetings, conversations, or findings in the complaint database or file.

vi) Resolve the Problem in a Manner Consistent with Established Goals for Customer Satisfaction

1. Empower front-line employees to authorize satisfactory solutions to problems.
2. Forward the complaint to another level of authority for resolution only when absolutely necessary.

3. Act swiftly, keeping the consumer informed through progress reports.

4. Notify the consumer promptly of a proposed settlement..

vii) Follow Up

1. Find out if the consumer is satisfied with the resolution. Was it carried out?

2. Refer the complaint to a third-party dispute resolution mechanism, if necessary.

3. Cooperate with the third-party mechanism.

viii) Prepare and File a Report on the Disposition of the Complaint; Periodically Analyze and Summarize Complaints

1. Circulate complaint statistics and action proposals to appropriate departments.

2. Develop an action plan for complaint prevention.

3. Make sure the consumer viewpoint is given appropriate consideration in company decision-making.

6.3 COMPLAINT MANAGEMENT CHECKLIST

In planning a system for complaint management or evaluating the one you have in place, consider the following questions:

1. Is the company view consumer satisfaction as a key ingredient of total quality management?

2. Is the company have a systematic strategy for complaint management?

3. Is the company have written procedures for your complaint management system?

4. Is staff throughout the company well aware of the procedures and the importance of complaint management system?

5. Is the company top management directly oversee complaint handling procedures?

6. Do incentives exist to reinforce staff commitment to consumer satisfaction?

7. Is the company complaint system easily accessible to consumers?

8. Is the company complaint system computerized?
9. Have the company considered a toll-free number for complaints and inquiries?
10. Is the company publicize the complaint system to consumers? If yes, how? Printed media (posters, advertising, monthly statements, on packaging, labeling, and products)?
11. Communications by sales personnel?
12. Is the company providing adequate training for the complaint management staff?
13. Is the company customer relations staff feel they have equal stature with other professionals in the company?
14. Is the company periodically survey the customers to see if they are satisfied with your complaint management system? Do you encourage feedback?
15. Is the company regularly review the complaint management system and make necessary improvements?
16. Is the company utilize the system of complaint management for more than settling individual complaints? For example, for quality control and problem prevention?
17. Is the company complaint system swiftly generate systematic information about causes of complaints and complaint trends? Does this data meet the management needs?
18. Is the company circulate to top management periodic reports of data from complaint records with suggestions for action to prevent recurring problems?
19. Is the company identify areas in the company where the complaint management system is having an effect? Has it been positive or negative?
20. Is the company coordinate the complaint management system with others in the distribution chain for the products or services? Is the company have a direct line of communication with them?

21. **Is the company have an adequate understanding of how these external organizations are affecting the relationship with customers?**
22. Is the company work cooperatively with governmental consumer agencies?
23. Is the company use third-party dispute settlement mechanisms for those problems not resolved in-house?
24. Has the use of third-party or in-house mechanisms had any effect on the number of regulatory actions (both private and governmental) involving the company?

6.4 KEY INGREDIENTS IN EFFECTIVE CONSUMER COMPLAINT MANAGEMENT

1. Management commitment
2. Fair policies on repairs, replacements, and refunds
3. Publicity for the system
4. Accessibility of complaint management staff
5. Promptness and courtesy of response
6. Personalized response, whenever possible
7. Simple, clear communications with consumers
8. Objectivity and flexibility in determining the proper resolution
9. Uniform and consistent record keeping
10. No charge to consumers for filing complaints
11. Minimal cost, if any, for obtaining redress

6.5 RECOMMENDATIONS FOR MANAGING CONSUMER COMPLAINTS

The first six recommendations address in-house complaint management systems. They focus on important elements such as management commitment, style, staffing, procedures, and record keeping. Recommendation 7 encourages businesses to use third-party dispute resolution systems to supplement company complaint programs. It identifies procedural safeguards that help insure fair dispute resolution.

RECOMMENDATION 1: AN EFFECTIVE STRATEGY FOR MANAGING CONSUMER COMPLAINTS AND INQUIRIES :

a) Effective complaint management enhances a company's reputation, builds consumer confidence and loyalty, and attracts new customers.

By talking back when they believe they have not received their money's worth, consumers give business an opportunity to correct the immediate problem and restore good will. Experience shows that consumers who complain about products and services continue to shop with the businesses and buy the products they complain about—if they believe the complaint was resolved fairly.

Conversely, consumers who do not complain directly to business may simply withdraw their patronage and criticize the company or the product to others. Research into complaint behavior reveals that only a fraction of dissatisfied consumers complains to business and thereby gives the company an opportunity to correct the problem. There is evidence that some consumers do not complain because they are skeptical about business' willingness or ability to resolve disputes fairly. Others don't report problems because they don't know where or how to complain, or they don't believe it is worth the inconvenience. Such findings underscore the importance to business of a complaint management system that is well publicized and easily accessible. An unregistered complaint may do as much harm as one that is mismanaged or unresolved.

b) Effective complaint management can result in increased sales, better products, improved personnel performance, and business economies.

Complaints are an inexpensive source of market research. When properly compiled, complaint data can indicate how consumers interpret company advertising, how products and services meet (or do not meet) consumer expectations, how instruction manuals and other consumer information can be improved, and how products

can be designed better. Complaints may signal a need for better systems of quality control at the production level. They may tell management of improvements that can be made in training and supervision of sales and service personnel.

Careful complaint management can save business unwanted costs. For example, negative word-of-mouth publicity from dissatisfied consumers means lost revenue and necessitates additional investment in advertising to attract replacement customers. Also, careful complaint analysis may reveal product defects that could lead to expensive recalls, if uncorrected. The possibility of costly lawsuits over warranty performance or product liability provides an additional financial incentive to use complaints as one means of identifying problems early.

Finally, it is to business' advantage to settle complaints promptly and equitably when they are first brought to the attention of business. It is more costly to resolve complaints that have been taken to outside parties, such as State or Federal agencies, or the courts.

c) Effective complaint management strategies can involve the use of toll free numbers.

Increasingly, companies are finding that toll-free numbers are an effective tool for achieving the goals listed above. Toll-free numbers give consumers an uncomplicated, immediate, personal, and free means of resolving problems or getting answers to questions. Barriers which might otherwise prevent consumers from complaining are overcome. In short, toll-free numbers can mean increased customer satisfaction. Because toll-free numbers make company services so accessible, more consumers are likely to contact those businesses that use them for customer relations. Increased contact by phone can yield more detailed marketing information, including the identification of the causes of problems and ideas for new products.

While establishing toll-free numbers involves costs to a business, the ability to respond immediately to consumer complaints and inquiries may reduce expenses and increase profits in the long run. Such direct customer contact provides business with opportunities for consumer education to prevent problems from escalating or occurring in the future. It also enables business to introduce other products to consumers, thereby increasing sales.

d) Effective complaint management helps business meet its responsibility to cooperate with Federal and State regulatory agencies.

When business solves easily-remedied problems with individual consumers, it reduces the possibility of government intervention into routine buyer/seller relations and allows public agencies to devote their limited resources to correcting violations of law. In cases where business has an obligation to report problems to the government, effective complaint management procedures are critical. It is a good policy for business to work with consumer protection officials at the State and Federal levels to remedy complaints and correct any patterns of unfair business practice that become apparent through complaint trends. Most Federal agencies do not have authority to remedy individual consumer complaints, although many can enact regulations to control industry-wide problems and can bring enforcement actions against companies whose conduct violates consumer protection laws.

At the State level, however, statutes generally assign responsibility for complaint investigation to particular State agencies—usually the Office of Consumer Protection, or Department of Consumer Affairs. It is advisable for consumer relations personnel within business organizations to have good working relationships with their counterparts in consumer protection agencies.

RECOMMENDATION 2: ESTABLISH THE CAPACITY, POLICIES, AND PROCEDURES :

Management attitudes are reflected in the conduct of employees and the performance of the company.

a) Top level commitment to effective complaint management establishes the motive and incentives for all personnel to strive for consumer satisfaction.

Because every employee has responsibility for satisfying customers, all staff must be well trained and empowered to quickly and fairly resolve complaints and handle inquiries. Although companies have reason to locate the consumer relations and complaint management functions centrally within the organization, each interaction the consumer has with an employee of the business is an opportunity to build customer loyalty through effective complaint management. Management's responsibility begins with the preparation of written policies and procedures for speedy and fair complaint resolution. The complaint management strategy and company policy on refunds, exchanges, and repairs will vary, of course, depending on the nature of the product or service, the terms of purchase, and other factors.

b) These policies and procedures should be put in writing and communicated to all departments, with emphasis on the accountability of individual employees for courteous and fair resolution of complaints. Guidelines should clearly state cases where front-line employees are empowered to resolve complaints on the spot. If clear lines of authority are established by management, consumer problems should be solved effectively. In addition, when employees understand management's philosophy and their own responsibility for putting it into effect, they can save consumers the frustration of repeatedly filing the same complaint or having to turn to outside agencies for assistance.

c) Management should regularly review and, when necessary, find ways to improve complaint management procedures.

Particular attention should be given to refining communication and coordination between complaint management and operating departments. Periodic surveys of consumers will reveal whether they feel they have been well served by the complaint processing procedures, and whether they find the company's policies on refunds, repairs, exchanges, and other forms of redress to be fair.

d) Short- and long-range planning should include adequate budget and staff allocations for consumer service and complaint management.

The administrative costs of complaint management should be borne by business, not by the individual consumers who register the complaints. Retailers and manufacturers may want to agree on a formula for sharing costs of complaint resolution. Sometimes costs are associated with providing a remedy. By law, products under full warranty must be repaired or replaced at no cost to the consumer, even if this involves transportation and reinstallation.

e) Company management should closely supervise complaint review and resolution.

In small companies, owners and managers can be personally involved in consumer relations on a regular basis. In larger companies, reporting and review procedures enable management to monitor the operation of the complaint management system and to stay in touch with consumer response to products and services.

f) While all employees must be responsive to consumer complaints and inquiries, day-to-day responsibility for complaint processing and resolution should be assigned to individuals who are both accessible to consumers and able to follow complaints through to final resolution.

All staff should be prepared to receive and, if possible, resolve consumer complaints regardless of their primary position in the company. When complaint management is centered in a specific area of the organization, all employees should quickly follow through to see that consumer complaints are correctly referred and handled. Independent authority for complaint management avoids possible conflicts within the company. Employees whose primary responsibility is sales or servicing, for example, may have difficulty resolving complaints objectively if they feel their performance rating could be adversely affected.

g) **Staff should be selected carefully for this sensitive consumer relations function.**

Consumers with complaints can be upset or angry. Therefore, employees need to be patient, articulate, and able to balance fairly the interests of the company and those of the consumer. They also should be able to communicate legitimate consumer complaints to management with the objective of helping to determine if changes in company policies or procedures are needed. All staff should be familiar with the operations of the company and with its products and services. Training can strengthen interviewing and communications skills and heighten the staff's awareness of special needs of consumers from different cultural, economic, or educational backgrounds. Also, complaint management staff should be familiar with consumer protection laws and with the operations of third-party dispute resolution mechanisms to which particularly difficult complaints may need to be referred. Finally. customer relations personnel should have professional status, adequate salaries, and opportunities for advancement consistent with the importance management assigns to consumer satisfaction.

RECOMMENDATION 3 : ADAPTED TO THE RESOURCES AND NEEDS OF INDIVIDUAL BUSINESSES :

Basic principles of sound complaint management apply regardless of company type or size. Actual operating procedures can be adapted to the needs and resources of a particular company. The system need not be costly or elaborate, so long as the essential functions are performed efficiently, courteously, and fairly.

RECOMMENDATION 4: COMPLAINT MANAGEMENT SYSTEMS SHOULD BE PUBLICIZED AND EXPLAINED TO EMPLOYEES, CONSUMERS, AND THE PUBLIC :

A complaint management system must be visible and accessible in order to serve consumers and accomplish company goals. Management, sales, service and public relations personnel should all cooperate to make the complaint system accessible to consumers. There are many ways to publicize the system, including:

1. On posters and signs in the sales and service area. On contract forms and sales slips.
2. In charge account mailings.
3. In use and care manuals.
4. In advertising the company's complaint system could be the theme of an advertising campaign.
5. On product packaging and labeling, or on products themselves, if feasible.
6. Through consumer information programs such as videotapes, booklets, and educational activities.
7. Instructing consumers of their responsibilities can help avoid misunderstandings and unnecessary complaints. Educating and informing consumers establishes realistic expectations and increases customer satisfaction.
8. Carefully read promotional material and product literature before buying.

9. **Follow instructions in use and care manuals.**
10. **Understand the terms of sale (warranties and guarantees, contracts, credit terms, refund policies, and so on).**

RECOMMENDATION 5: SERVE TO REDUCE THE CAUSES FOR CONSUMER COMPLAINTS :

Complaints and complaint trends tell business how to do its job better by alerting management to problems, which need prompt attention and correction. Furthermore, they indicate long-range opportunities for product innovation and problem prevention. A well-planned system for screening and recording complaint data can provide answers to such important questions as:

1. Are products "over-sold" or "over-advertised"? Is advertising clearly understood?
2. Are salespeople overzealous?
3. Do product disclosures (such as labeling, warranty information, and service agreements) need to be improved?
4. Are user's manuals clear, complete, and easy-to-read?
5. Would alterations in warranty coverage reduce complaints?
6. Complaints also provide information about product quality:
7. Are there opportunities for product improvements or better quality control?
8. Are there indications of safety defects that should be reported and corrected, or that justify a recall?

To get this valuable feedback, complaint reporting must generate information swiftly and systematically to the appropriate manager or departments. Initial screening should trigger immediate action, when necessary, and statistical summaries should identify trends and long-range courses of action.

RECOMMENDATION 6: RETAILER'S PROVES DIFFICULT OR IMPOSSIBLE, THE MANUFACTURER SHOULD AID IN THE RESOLUTION :

Direct, swift, and informal complaint resolution is advantageous to all concerned—consumers, business, government, and the courts. Consumers are likely to turn first to the place of purchase—retail store, service establishment, contractor, and so on. Resolving complaints at this level avoids unnecessary consumer frustration and preserves the direct buyer/seller relationship. Moreover, it is likely to be relatively easy, quick, and economical.

Still, it is important that companies coordinate complaint management with others in their distribution network. Retailers, manufacturers, and service outlets mutually benefit from keeping one another informed of complaints and complaint trends and cooperating when necessary to see that complaints are fully and satisfactorily resolved.

Some laws (warranty and product safety laws, for example) assign overlapping responsibilities to all businesses in the distribution chain for disclosing information to consumers and for identifying and correcting problems associated with products and services. Also, government regulatory agencies may step in if businesses themselves do not correct problems that result in recurring patterns of complaints.

Manufacturers should encourage consumers and retailers to contact them when a dispute cannot be resolved at the place of purchase. Complaint systems at the retail level should be structured to isolate those matters, which need the immediate attention of manufacturers. These include complaints, which suggest possible design, or production defects that affect product safety and performance. Also, complaints forwarded from the retail level can help manufacturers evaluate their own policies

toward warranty coverage, for example, or identify advertising or labeling which needs to be clarified, or learn things about product performance or marketing that are revealed only after wide distribution.

RECOMMENDATION 7:THIRD-PARTY DISPUTE RESOLUTION MECHANISMS TO SUPPLEMENT IN-HOUSE COMPLAINT MANAGEMENT :

If complaints cannot be resolved directly between the consumer and retailer or manufacturer, they should be referred to third-party dispute resolution. Third-party mechanisms use the services of unbiased individuals to resolve disputes through conciliation, mediation, and/or arbitration.

i) Conciliation

A neutral conciliator brings the parties together and encourages them to find a mutually acceptable resolution of the dispute.

ii) Mediation

A neutral mediator becomes actively involved in negotiations between the parties. The mediator can propose a resolution, but cannot dictate a settlement of the dispute.

iii) Arbitration

An independent individual or panel hears the facts on both sides of a dispute and reaches a decision by which both parties have previously agreed to abide. In some systems, only the business agrees in advance to abide by the outcome of the arbitration.

Third-party dispute resolution is advantageous to business because it enables expeditious, economical, and fair complaint resolution without government regulation or legal action. In fact, government agencies encourage the use of third-party mechanisms when complaints cannot be resolved directly between buyer and seller. Proponents of third-party systems point out that their use can help make

manufacturers and retailers more responsive to consumer problems. By submitting disputes to a neutral decision-maker, business can demonstrate its good will in the form of a willingness to seek unbiased solutions to consumer complaints.

The number of third-party dispute mechanisms has grown. For some time, government offices of consumer protection in many jurisdictions have used mediation to settle disputes between business and consumers. The Better Business Bureau was one of the pioneers in the use of arbitration to settle consumer disputes. Better Business Bureaus in all metropolitan areas now offer this service. Arbitration has been written into several consent agreements between the Federal Trade Commission and businesses subject to frequent consumer complaints.

Because their value has been proven, third-party dispute resolution programs have been established by trade associations and some individual companies to resolve complaints involving a particular industry or product brand. Also, some State legislatures have established arbitration procedures for certain types of disputes, such as medical malpractice or automobile lemon law complaints.

Accumulated experience has enabled the government and business organizations to refine the procedures followed by third-party mechanisms to better insure due process and settlements that are fair to both parties. Businesses considering the use of a third-party system should evaluate it against criteria and standards developed by the government and the more advanced privately-sponsored mechanisms.

A small percentage of consumers and businesses seek more formal third party complaint resolution in small claims court. Use of the courts can be cumbersome and costly for both sides and usually can be avoided if a good faith effort is made to resolve disputes at the company level or through informal dispute resolution.

Many State and local offices of consumer protection have the power to enter into litigation on behalf of consumers. In addition to the cost, the adverse publicity

associated with being sued by a consumer protection agency is a powerful incentive to business to use efficient, informal complaint management and to study complaint trends to be sure that company practices are well within the boundaries defined by consumer protection laws.

6.6 CONCLUSION

Complaint management systems and company policies on refunds, exchanges, and product servicing vary widely depending on the nature of the product or service, the terms of purchase, consumer use patterns, and so on. There is no single formula that will provide universal relief for dissatisfied consumers. However, industry and government experience with complaint management has shown that the procedures and safeguards recommended here provide a sound basis for an efficient and fair complaint program. The commitment and continuing involvement of company management is critical to successful complaint resolution and to the optimum use of complaints as a management tool. Management involvement and review will help discover new ways to improve both the complaint management system and the fairness of remedies offered to consumers.

6.7 CHECK YOUR PROGRESS

1. What are the steps in complaint management?
2. What are the steps in complaint management?
3. What are the third parts disputes resilution mechanism?

6.8 ANSWER TO CHECK YOUR PROGRESS :

1. Designate location to receive complaints, Develop a system for Record keeping, Press and Record complaints, acknowledge complaint, Investigate and analyse the complaint, Resolve the problem, follow up and file a Report.

2. **Effective complaint management can result in increased sales, better products, improved personnel performance and business economics.**

3. **Conciliation, Mediation and Arbitration**

6.9 QUESTIONS AND EXERCISES

1. What are the basic steps for effective complaint management in retailing?
2. What are the complaint management checklists in effective consumer complaint management?
3. Briefly explain the key ingredients in effective consumer complaint management in retailing.
4. Explain the major recommendations for managing consumer complaints in Indian retailing.

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UNIT VII
DISTRIBUTION SYSTEM IN RETAIL STORE

UNIT STRUCTURE

UNIT OBJECTIVES

This chapter should enable you to understand and explain

- To provide a basic understanding of the distribution management in retailing
- To understand the details of cost analysis of distribution management in retailing
- To understand the methods of distribution flows in retail stores
- To elaborate on the online logistics management or logistics of E retailing

7.1 INTRODUCTION

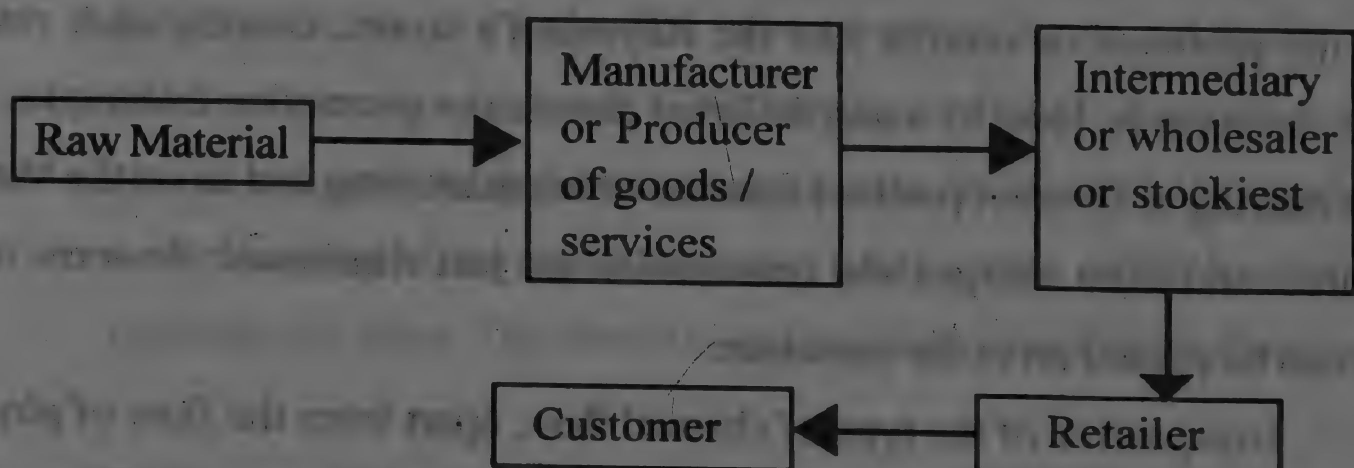
In this chapter we will examine the various facets of distribution management in retailing. We have discussed about the importance of information in the supply chain by examining the various cost structures in retail logistics which will help retailers to achieving low cost, better quality and ensure timely deliveries to the customers. In order to facilitate this, we have tried to understand how retailers store information in data warehouses and them transmit it to vendors through Electronic

Data Interchange (EDI). Apart from understanding the various merchandise flows, the chapter concludes with discussions addressing certain specific issues such as Quick Response (QR) delivery systems, online logistics management or logistics of electronic retailing and outsourcing logistics functions.

7.2 MEANING OF DISTRIBUTION SYSTEM

The supply chain or distribution logistics encompasses all the activities and exchanges involved in extracting, processing, manufacturing and distributing goods and services from raw materials through to the end consumer. It also requires the retailers to take a holistic view of these activities and adopt innovative approaches to meet customer needs with great efficiency.

G. Davis has given a retail definition of supply chain management as or distribution chain as follows: the management of resources to supply the product and service needs of the end consumer encompassing the supply chain of any physical products and the exchange processes involved."



In the traditional distribution network, retailer sell merchandise, which the manufactures conceive, and wholesalers supply. In this linear set up it was a left right progression, wherein the customer stood passively, at the receiving end of the chain. But today, the consumer is more demanding and choosy because (he or she) is being wooed by many organized retailers who are putting all efforts to enhance customer value through establishing sophisticated logistics management systems.

The various components in the traditional supply chain channel and the manufacturer; wholesaler and retailer have to build up a chain of facilitating services so as to ensure that the right product reaches the final customer. Here the manufacturer was dependent o the intermediaries to offer qualitative services throughout the chain, maintain low costs and then deliver goods.

Another supply chain channel is the limited channel when a retailer works directly with the procedure and can therefore eliminate wholesaler and the extra cost involved in this part of the chain. There are certain retailers like Viveks, Durian furniture's and so on who deal directly with the supplier and create limited supply chains. Another supply chain alternative is the direct channel, where the product or service is directly sold by the producer or retailer like the Raymond's stores, country club resorts, Citibank credit cards. Here by using different direct sales promotion techniques such as direct mailing or Internet (online) services or telemarketing and so on the channel I kept direct and extra charges and commission are just eliminated. So some of the sayings can be passed on to the customer.

Irrespective of the type of channel flow, apart from the flow of physical goods, there are other types of flow for the supply chain to be successful. These could be physic flow, ownership low, service flow, information flow, good logistics and supply chain management techniques have to be used to ensure the smooth movement or merchandise till it reaches the hands of the consumers.

To exist in the competitive marketing environment retailer are makig new modern logistics system to ensure optimum services for the supply of goods to the consumer and thus achieve high levels of consumer satisfaction and service at acceptable costs.

7.3 COST ANALYSIS OF DISTRIBUTION SYSTEM

According to Total Distribution Costs for the supply chain will go by the formula

TDC = TC + FC + CC+IC+HC+PC+MC

Where TC	-	Transport cost
FC	-	Facilities costs
CC	-	Communication Cost
IC	-	Inventory Costs
HC	-	Handling Costs
PC	-	Packaging Costs
MC	-	Management Costs

Thus total distribution costs have to be considered in relation to each other and may also involve trade offs between services levels and quality or between margins and investment in systems. TDC permits retailers to exercise control over the costs as well as supply of goods to the consumer. But for this the retailer needs to have an understanding of the international of all the parts of the logistics process and then optimise the same. The above mentioned costs are briefly discussed hereunder.

i) TRANSPORT COST

Transport Cost structure includes substantial fixed cost elements with scope adapt capacity to match volume. Centralised retail distribution has led to improved efficiency due to the decrease or reduction in the number of journeys made with less than full loads. The use of composite distribution facilities enables the usage of the

same vehicle to handle merchandise requiring different storage regimes - implying more frequent full load deliveries to stores.

ii) FACILITIES COST

Facilities cost includes the capital and running costs associated with providing warehousing infrastructure and internal systems to store and pick merchandise. Warehousing involves a high fixed cost element. There could be spare capacity which represses wasted resources and short term measures to cope with insufficient capacity. Once created the ability of the business to match warehousing facilities to changing demands will be strictly limited. A regional distribution centre (RDC) is located in a low cost area and able to hold more stock in an efficient manner.

iii) COMMUNICATIONS COSTS

These costs are mainly the administrative costs associated with order processing and electronic data interchange.

iv) INVENTORY COSTS

Irrespective of the type of inventory system used by the retailer or the set of service levels of attitudes towards distribution. There will be costs associated with the maintenance and replenishment of inventory. These could include the direct capital costs of buying stock and opportunity costs for carrying inventory (the capital tied up in inventory could be available for investment elsewhere within or outside the organization);

v) HANDLING COSTS

Handling costs includes the risk costs of damage and spoilage that could occur when merchandise or stock is moved through warehouse and transportation systems. Whenever (or every time) an item is moved or stored there is a possibility f damage, pilferage or deterioration – these will be treated as part of handling costs.

vi) Packing costs

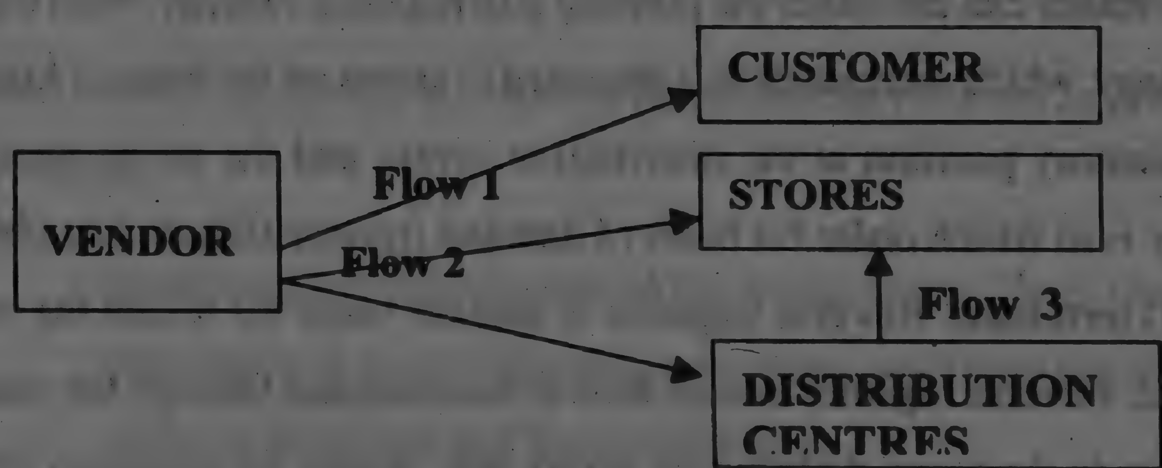
Packing costs will be incurred by the retailer on the material used for packaging purpose. These costs would be through the use of pallet boards on which deliveries may be shipped (or transported) and the use of shrink-wrap or cling wrap film to secure pallets and cages during transit.

vii) Management Cost

Management costs refer to all those costs which are incurred due to the control systems and mechanisms which are built into the retailers logistics systems such as security systems, temperature monitoring systems and so on.

7.4 TYPES OF DISTRIBUTION SYSTEM

Logistics with reference to supply chain management is very comprehensive and strategic and includes customer relationship management, inventory management and vendor relations. When we talk of the physical flow of merchandise it could flow from vendor to distribution centre DC to stores or alternatively the merchandise flows from vendor directly to stores.



FLOW 1 – VENDOR TO CUSTOMER = STORE DIRECT SYSTEM

FLOW 2 - VENDOR TO STORES = DISTRIBUTION CENTER SYSTEMS

FLOW 3 – VENDOR TO DISTRIBUTION = MULTIPLE CENTER SYSTEM

We will start with the Flow 1 when merchandise flows from the vendor to the DCA distribution centre DC usually carries out several functions, which are given below

1. **Management of transportation to facilitate merchandise flow from vendor to distribution centre**
2. **Recording receipt of merchandise at the distribution centre and checking to ensure it is in order.**
3. **Storing and or cross docking vendors may wither store merchandise at the distribution centre of they may ship merchandise pre-packaged in the quantity required at each store.**
4. **Getting merchandise floor ready i.e ticketing marketing (handling showing price and identification marks) etc**

The retailer can use either the purpose pull logistics strategy. Push logistics **strategy is a strategy, which merchandise is allocated to stores on the basis of historical demand, the inventory position at the distribution centre and the stores need. Pull logistics strategy is in which order for basis of demand information or data obtained at the sale (POS) terminals.** Reverse logistics is another issue for which the retailer **has to be prepared.** Reverse logistics is back flow of merchandise through the chemical **from the customer to the store,** distribution centre and vendor for customer returns

i) DIRECT SYSTEM

In direct marketing a customer is first exposed to a good or service through a non-personal medium and then orders by mail, phone or fax and increasingly by computer. The average consumer who buys direct spends money per year and he or she wants convenience, unique products and good prices.

Direct marketing has a number of strategic business advantages

1. Many costs are reduced – low startup costs are possible; inventories are reduced; no displays are needed; a prime location is unnecessary; regularly staffed store hours are not important; a sales force may not be needed and business may be run out of a garage or basement.
2. It is possible for direct marketers to have lower prices than store based retailers with the same items
3. Customers shop conveniently- without crowds, parking congestion or checkout lines. And they do not have safety concerns about shopping early in the morning or late at night.
4. Specific consumer segments are pinpointed through targeted mailings.
5. Consumers may sometimes legally avoid sales tax by buying from direct marketers not having retail facilities in their state.
6. A store based firm can supplement its regular business and expand its trading area without adding outlets.

Direct marketing system also has its limits, but they are not as critical as those for direct selling.

1. Products cannot be examined before purchase. Thus, the range to items purchased is more limited than in stores and firms need liberal return policies to attract and keep customers.
2. Prospective firms may underestimate costs. Catalog can be expensive. A computer system is required to track shipments, monitor purchases and returns and keep mailing lists current.

3. Printed catalogs are prepared well advance, causing difficulties in price and style planning

4. Some firms have given the industry a bad name due to delivery delays and shoddy goods.

Emerging Trends in Direct System

Several trends are relevant for direct marketing: the evolving activities of direct marketer, changing consumer lifestyles, increased competition, the greater use of dual distribution channels, the new roles for catalogs and TV, technological advances and the interests in global direct marketing. There are following evolving activities of direct marketers.

1. Technology has moved to the forefront in all aspects of direct marketing - from lead generation to order processing.
2. Multi channel retailing is utilized by many more firms today.
3. There is an increased focus on data base retailing
4. Many more firms now have well articulated and widely communicated privacy policies.

ii) MULTI CHANNEL RETAILING SYSTEM

Multi channel retailing enables consumers to conveniently shop in a number of ways, including stores, catalogs, a web site, kiosks and even personal digital assistants with web access. Some firms have even developed advanced multi channel retailing system that enable consumers to examine products at one format, buy them at another format, and pick them up and possible return them at a third format. Planning and maintaining a well-integrated multi channel strategy is not easy. At a minimum require setting up an infrastructure that can effectively link multiple channels. A retailer that accepts a web purchase for exchange at a retail store needs an information system

to verify the purchase, the price paid, the method of payment and the date of the transactions. That firm also needs a mechanism for delivering goods regardless of which channel was used by a customer to purchase the goods. These are just some of the strategic and operational issue for multi channel retailers to address.

1. What multi channel cross selling opportunities exists?
2. How should the product assortment/variety strategy be adapted to each channel?
3. How much merchandise overlap should exist across channels?
4. Should prices be consistent across channels?
5. How can a consistent image be devised and sustained across all channels?
6. Do relationships with current suppliers prevent the firm from expanding into new channel?

ADVANTAGES OF MULTI CHANNEL RETAILING

There are several advantages to a retailers enacting a multi channel approach, including the selection of specific channels based upon their unique strengths. opportunities to leverage assets and opportunities for increased sales and profits by appealing to multi channel shoppers.

1. Selecting among Multiple Channel based on their Unique Strengths

A retailer with a multi channel strategy can use the most appropriate channels to sell particular goods or services or to reach different target markets. Because each channel has a unique combination of strengths, a multi channel retailer has the best opportunities to fulfill its customers shopping desires.

2. Opportunities to Leverage Assets

Multi channel retailing presents opportunities for firms to leverages both tangible assets and intangible assets. A store based retailer can leverage tangible assets by using excess capacity in its warehouse to service catalog or web sales and the same

firm can leverage its well known brand name by selling online in geographic areas where it has no stores.

3. **Opportunities for increased sales and profits by appealing to multi channel shoppers**

Research indicates that multi channel consumers spend more than those who confine their shopping to a single channel.

7.5 SPECIFIC LOGISTIC ISSUE IN RETAILING

Retailers are reacting to the competitive environment by changing g the way the distribute merchandise. These can be broadly referred to as quick response delivery system, online logistics management or logistics of electronic retailing and outsourcing logistics functions.

QUICK RESPONDENCE DELIVERY SYSTEM (QRDS) are inventory management system designed to lower (or reduce) the retailers lend time for receiving merchandise, resulting in lower inventory investment, improving customer service. Lives and thus reducing logistics expenses

The QR system has been designed from Just In Time (JIT) initiative undertaken by manufactures and adopted for retaining. Thus quick Reponses delivery system represents the nexus of information system and logistics management the benefits of a QR system are

1. Lowers or reduces load time
2. Increases the availability of product and lower incurrent investment of the retailers
3. Enables substantial reduction in logistics expenses

Cost of QR System

In spite of the man benefits of a QR system if also involves the following costs

1. Greater order frequency involves small orders which are more expensive to transport
2. It becomes more difficult to cooperative deliveries and transportation with greater order frequency
3. Effectiveness of the QR system will require a strong commitment from the vendors ad retailer side to co operative share data and develop system such as EDI and CPFR
4. Successful implementations of QR system require financial support of the top management as well as physiology commitment to partners with their vendors.

7.6 ONLINE LOGISTICS MANAGEMENT OR LOGISTICS OF ELECTRONIC RETAILING:

Logistics for fulfilling online or Internet order is very different from distribution of merchandise to stores. Thus retailers have to install a fully integrated information system which is able to handle properly the distribution of merchandise from distribution centre to stores and to customers placing order via their website.

Outsourcing Logistical operations to third parties:

Outsourcing means obtaining a service from outside the organisation, which is the past was done by the firm itself. In order to streamline their operations and wake more productive use of their personnel and assets, retailers sometimes prefer to outsource logistical functions; if these can he performed better or are less explosive when carried out by third party logistics company. These outgoing could he carried out in the following ways:

1. Third party logistics companies: There are firms who well facilitate movement to merchandise from the manufacture to retailer but re owned independently
2. Transportation Company. Retailers may select transport companies carefully are demand reliable customized services and thus help to reduce lead times.
3. Times party warehousing. In order to meet specific delivery times for floor ready merchandise, vendors may use public warehouses which are owned and operated by a third party.
4. Freight forwarders: These are companies, which consolidate small strumpets from a number of shippers into large shipments, which may change a lenor fright rate.
5. Integrated their party logistics services.

   This type of third party logistics provides is one stop shop providing transportation warehousing and freight forwarding.

7.7 CONCLUSION

A new retailer often relies on single channel retailing whereby it wells to consumers through one retail format. As the firm grows, it may turn to multi channel retailing and sell to consumers through multiple retail formats. This allows the firm to reach different customers, share costs among various formats and diversify its supplier base. The key to successful direct marketing is the customer data base, with database retailing being a way to collect, store and use relevant information. Several trends are vital to direct markers: their attitudes and activities, changing consumer lifestyles, increased competition, the use of dual distribution and the growth in global direct marketing.

7.8 CHECK YOUR PROGRESS

1. What are the stages involved in distribution system?
2. What are the cost included in distribution system?
3. What are the three types of distribution?
4. What is QRPS?
5. What you mean by multichannel Retailing?

7.9 ANSWER TO CHECK YOUR PROGRESS

1. Raw material, producer, Intermediaries, Retailer and customer
2. Transportation, Facilities, communication, Inventory, Handling, Packaging and Management costs.
3. Store Direct system, Distribution center system and multiple centre system.
4. Quick Respondence Delivery system.
5. Multi channel retailing enables consumers to conveniently shop in a number of ways including stores, catelogs, a website, kiosks and even personal digital assistants with web access.

7.10 QUESTIONS AND EXERCISES

1. What you understand by retail distribution management in India
2. Explain the various costs involved in distribution management in retailing
3. Explain the merits and demerits of direct distribution in retail store in India
4. What are the advantages and disadvantages of multi channel system in retail distribution system?
5. Explain briefly on online/e-retailing logistics in India.

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UNIT VIII
HUMAN RESOURCE MANAGEMENT IN RETAIL

UNIT STRUCTURE :

UNIT OBJECTIVES

This chapter should enables you to understand and to explain

1. **To provide a basic functions of human resources in retail sector**
2. **To elaborate on the details of personnel utilization, store maintenance, energy management, inventory management, store security, store insurance and credit management in retail store in India**

8.1 INTRODUCTION

The function of human resources has special significance in retail, as the employees operate in a unique environment. In retail, it being a part of the service

industry, it is people within the organization that can become the source of competitive advantage. This is true in more ways than one.

In any retail organization, the people who deal with the customers at a one to one level are considered to be the face of the organization. Thus, people who work at the store level are important. Hiring the persons with the right attitude is important, as in the case of most retail stores, the employees need to work long hours, and may also need to work when the rest of the people are on a holiday, e.g., on Sundays, and on occasions like Diwali, Christmas, etc. Secondly, the retailer needs to have the persons with the right skill sets, taking care of functions like buying and merchandising, as the product is the key in a retail set-up. In this section, we examine the various aspects of the human resources function in retail.

8.2 HUMAN RESOURCES FUNCTION IN RETAIL:

The Human Resources function in retail involves:

1. Identifying the various roles in the organization;
2. Recruiting the persons with the right attitude, to fit the jobs;
3. Training
4. Motivation of employees; and
5. Evaluation of employee performance.

LIdentifying the various Roles in the Organization

The first step starts with the identification of the various tasks or jobs that need to be performed in the organization. This helps in determining the number of people required for various jobs, the skill sets and educational background needed and the location where the are going to be based depending on the organisation structure defined and the size of the retail operation.

1. Buying and merchandising
2. Store management and operations and
3. Technology support

It is necessary that persons with the right attitude and skill steps be recruited for above-mentioned functions, as they are the key in any retail organisation. While professional qualifications for the various tasks are important it is also necessary to hire persons who understand consumer trends and technology and what it can provide. This is extremely important as traditionally retail has been one of the oldest users of information technology.

II. Recruitment and selection

After determining the tasks to be performed within the organisation, the jobs need to be categorized on the basis of the functional or geographic needs. Aim of the recruitment process is to make available job applicants for specifying job(s). Common ways of recruitment include newspaper advertisements, visits to colleges existing employees, references, recruitment agencies and even websites.

Many organisation create an applicant blank, which has to be filled in by the applicant and which gives the details of the applicants education, work, hobbies and family background. It helps the organisation in obtaining information about the applicant in a standard. Once the applications are received, they are screened on the basis of parameters that are important to the retailer. This serves as the primary basis for acceptance or rejection of the candidate.

In the case of most of the organizations, the candidates who are short listed on the basis of the bio data or application blank are called for a personal interview. A personal interview enables the interviewer to gauge the attitude of the person and his suitability for the desired job. Depending on the position applied for, the selection

procedure may comprise of one or more interviews. When the candidate passes the interview stage, reference checks may be done and the final decision is taken.

III. Training

Training is an important aspect of human resource management in retail. Typically, in retail, training needs arise at the following time:

1. Inducting new persons/staff into the organisation.
2. Training of sales staff, as they are the persons who are in direct contact with the customers.
3. Training of staff/personnel for skill enhancements.

When new persons join any organisation, an induction programme is conducted. The purpose of such an induction programme is to familiarize the new entrants with the origination's policies and methods of doing business.

In retail, special importance us given to the training of sales staff, as they are commonly termed as the face of the originations. Training for sales staff usually, focuses on the following:

1. Communication Skills:

This is necessary to enable the staff to understand the basics of effective communication. They also need to understand the barriers to communication and how to overcome them. Body language, its importance and interpretation in various sales situations, also needs to be understood by the staff, to enable them to communicate effectively with the customer.

2. Product Knowledge

Product knowledge is very important to a retail sales person. He needs to know the features, prices, qualities and benefits (if any) of the products that they are selling. Details of any after sales service offered must also known. It is advisable to

possess some knowledge of the current marked trends and the offerings of the competitors. Product knowledge, many a times, becomes the key factor affecting the consumer's decision to make a purchase.

3. Company Policies on Returns

The sales person also needs to be aware of the policies on returns and exchanges. This enables the staff to know the manner in which they need to deal with the customers on these issues.

4. Knowledge of the Workplace

The staff needs to be aware of the layout of the store and the merchandise available in the various sections. Within the department/section that the staff has to operate in, he needs to know and understand the manner in which the merchandise has been presented and stocked.

5. Market Awareness

This includes of the trends and fashions in the sector in which the retailer operates. Knowledge of the stores in the same market and the special features of the competing stores, also need to be known. This knowledge helps in understanding what customers may be interested in.

6. Personal Grooming

The salesperson is the face of organization to the world. An untidy looking salesperson is more likely to alienate customers. Personal grooming at the retail staff level requires staff to understand the discipline of the retail shop, the uniform, shoes, appearance and personal hygiene.

IV Motivation

Success in a retail environment largely depends on the workforce. Given the kind of work hours and the pressures on performance, the retailer needs a staff

that is completely motivated. This is true for persons working within the organization, as front-end sales staff, as also the people working at the backend of the organization.

The need to influence people within the organization, to perform the tasks as needed by the organization has always existed. One of the oldest methods used to achieve this end was called the Carrot and Stick Method. The name evolved from the stubbornness of donkeys that could only be moved by taunting them with a carrot. Managements often use economic "carrots" to entice people to work harder. Over the years, this technique has become a part of our system and has created the misconception that money is always the factor that motivates.

Research on human behaviour has, however, allowed psychologists to explain motivation and develop models incorporating an understanding of how to get the most out of people. The key factors that help in motivating people are:

1. The organization culture,
2. The rewards and recognition,
3. The monetary benefits, and
4. Prospects for growth and job enrichment.

1. The Organisation Culture

The culture within the organization can be a strong motivating factor. The core values and beliefs of the organization very often dictate its culture. The culture of a retail organization may focus on customer service, or on cost efficiency. The culture within the organization, largely influences the manner in which the people at various levels behave and interact with others.

2. Rewards and Recognition:

This is a strong motivating factor. A reward is anything an individual perceives as valuable. Rewards do not necessarily have to hold any monetary value.

Since each person's perceptions are different, what will be considered a reward and its relative value will differ widely among individuals. A reward is an example of a positive reinforcement. Simple occasions like birthdays, anniversaries, achievement of sales targets and extraordinary examples of customer service, are occasions when employees at the store can be recognized. Recognition can be in the form of a simple greeting card, a cake or an event organized for the staff.

3. Monetary Benefits:

The importance of money as a motivating factor will depend on the need hierarchy of the individual. Behavioural scientists believe that a higher pay will lead to a greater performance provided certain conditions exists. The first is that the person must expect that the pay and his performance are related, i.e., if he works harder, he will get pay raises. Typically, at a higher level in management, money may cease to be a motivating factor.

IV. Prospects of Growth within an Organisation and the Opportunity of Job Enrichment:

This is, many a times, seen as a key motivating factor. An individual. who joins a retail organization, as a sales person and sees opportunities to rise within the organization, is likely to be highly motivated. Job enrichment and job rotation are also ways by which employees can be motivated. Simply offering more money will motivate people to some degree, but it is far more effective to focus on the other needs. By offering rewards, that satisfy other needs, such as the need for responsibility and recognition, the retailer can create a better-motivated workforce.

V. Evaluation of Performance

The basis for performance evaluation is the goals that have been set. Goals, which are specific, tied to rewards, and voluntarily committed to by the employees.

many a times, work as a motivator to perform well. Performance can be enhanced through measures taken to clarify and establish work goals. Goals make the expected level of performance clear and help improve performance by measuring the progress of a task. Outstanding performance should be explicitly recognized; poor performance should also be identified and addressed, with constructive criticism. To enhance motivation and job performance, goals must be specific and challenging. However, goals need to be set taking into consideration, the capabilities of the individual.

In a retail organization, the goals for performance would depend on the role performed by the individual. The goals set for a buyer or merchandiser would be different from those for the sales staff. For example, the sales staff may be evaluated on the basis of the achievement of individual targets, and or departmental targets. Performance evaluation also serves as the basis for determining further training needs of the individual.

8.3 PERSONNEL UTILIZATION

From an operations perspective, efficiently utilizing retail personnel is via:

(1) Labor costs are high. For various retailers, wages and benefits may account for up to one-half of operating costs.

(2) High employee turnover means increased recruitment, training, and supervision costs.

(3) Poor personnel may have weak sales skills, mistreat shoppers, misring transactions, and make other error.

(4) Productivity gains in technology have exceeded those in labor; yet, some retailers are labor intensive.

(5) Labor scheduling is often subject to unanticipated demand. Although retailers know they must increase staff in peak periods and reduce it in

slow ones, they may still be over-or understaffed if weather changes, competitors run specials, or suppliers increase promotions.

(6) There is less flexibility for firms with unionized employees. Working conditions, compensation, tasks, overtime pay, performance measures, termination procedures, seniority rights, and promotion criteria are generally specified in union contracts.

These are among the tactics that can maximize personnel productivity:

(1) Hiring process:

By very carefully screening potential employees before they are offered jobs, turnover is reduced and better performance secured.

(2) Workload forecasts

For each time period, the number and type of employees are pre-determined. A drugstore may have one pharmacist, one cashier, and one stockperson from 2 p.m. to 5 p.m. on weekdays and add a pharmacist and a cashier from 5 p.m. to 7.30 p.m. (to accommodate people shopping after work). In doing workload forecasts, costs must be balanced against the possibilities of lost sales if customer-waiting time is excessive. The key is to be both efficient (cost-oriented) and effective (service-oriented). Many retailers use computer software as an aid in scheduling personnel.

(3) Job standardization and cross-training

Through job standardization, the tasks of personnel with similar positions in different departments, such as cashiers in clothing and departments, are rather uniform. With cross training, personnel learn tasks associated with more than one job, such as cashier, stockperson, and gift wrapper. A firm increases personnel flexibility and reduces the number of employees needed at any time by job standardization and cross training. If one department is slow, a cashier could be assigned

to a busy one; and a salesperson could process transactions, set up displays, and handle complaints. Cross training even reduces employees' boredom.

(4) Employee performance standards

Each worker is given clear goals and is accountable for them. Cashiers are judged on transaction speed and misrings, buyers on department revenues and markdowns, and senior executives on the firm's reaching sales and profit targets. Personnel are more productive when working toward specific goals.

(5) Compensation

Financial remuneration, promotions, and recognition that reward good performance help to motivate employees. A cashier is motivated to reduce misrings if there is a bonus for keeping mistakes under a certain percentage of all transactions.

(6) Self-service

Costs are reduced with self-service. However:

(1) Self-service requires better displays, popular brands, sample assortments, and products with clear features.

(2) By reducing sales personnel, some shoppers may feel service is inadequate.

(3) There is no cross selling (whereby customers are encouraged to buy complementary goods they may not have been thinking about).

(7) Length of employment

Generally, full-time workers who have been with a firm for an extended time are more productive than those who are part-time or who have worked there for a short time. They are often more knowledgeable, are more anxious to see the firm succeed, need less supervision, are popular with customers, can be promoted, and are

adaptable to the work environment. The superior productivity of these workers normally far outweighs their higher compensation.

8.4 STORE MAINTENANCE

Store maintenance encompasses all the activities in managing physical facilities. These are just some of the facilities to be managed: exterior – parking lot, points of entry and exit, outside signs and display windows, and common areas adjacent to a store (e.g., sidewalks); interior – windows, walls, flooring, climate control and energy use, lighting, displays and signs, fixtures, and ceilings.

The quality for store maintenance affects consumer perceptions, the life span of facilities, and operating costs. Consumers do not like stores that are decaying or otherwise poorly maintained. This means promptly replacing burned-out lamps and periodically repainting room surfaces.

Thorough, ongoing maintenance may extend current facilities for a longer period before having to invest in new ones. At home centers, the heating, ventilation, and air-conditioning equipment lasts an average of 15 years; display fixtures an average of 12 years; and interior signs an average of 9 years. But maintenance is costly. In a typical year, a home center spends 10,000 on floor maintenance alone.

8.5 ENERGY MANAGEMENT

Due to rising costs over the last 30-plus years; energy management is a major factor in retail operations. For firms with special needs, such as food stores, it is especially critical. To manage their energy resources more effectively, many retailers now:

(1) Use better insulation in constructing and renovating stores.

(2) Carefully adjust interior temperature levels during non-selling hours. In summer, air-conditioning is reduced at off-hours; in winter, heating is lowered at off-hours.

(3) Use computerized systems to monitor temperature levels. Some chains' systems even allow operators to adjust the temperature, lighting, heat, and air-conditioning in multiple stores from one office.

(4) Substitute high-efficiency bulbs and fluorescent ballasts for traditional lighting.

(5) Install special air-conditioning systems that control humidity levels in specific store areas, such as freezer locations – to minimize moisture condensation.

Here is an example of how seriously some retailers take energy management:

Food Lion was recently honored with an Energy Star Award in the category of Sustained Excellence. "We are demonstrating a long-term commitment to the environment and to its bottom line, which benefits the environment, consumers, the firm, and its investors", said Food Lion's vice-president of construction and engineering. The chain has reduced its energy use by more than 25 percent, or 1.62 trillion BTUs, since 2000, primarily through new lighting, refrigeration, and heating and cooling technologies, and management efforts. Hundreds of Food lion stores have earned the Energy Star designation, which means these stores are among the most energy-efficient retail facilities in the country. "Our goal is to be a world-class leader in energy management in the supermarket industry".

8.6 INVENTORY MANAGEMENT

A retailer uses inventory management to maintain a proper merchandise assortment while ensuring that operations are efficient and effective. These are some operational issues to consider :

(1) How can the handling of merchandise from different suppliers be coordinated?

(2) How much inventory should be on the sales floor versus in a warehouse or storeroom?

(3) How often should inventory be moved from non-selling to selling areas of a store?

(4) What inventory functions can be done during non-store hours?

(5) What are the trade-offs between faster supplier delivery and higher shipping costs?

(6) What supplier support is expected in storing merchandise or setting up displays?

(7) What level of in-store merchandise breakage is acceptable?

(8) Which items require customer delivery? When? By whom?

8.7 STORE SECURITY

Store security relates to two basic issues: personal security and merchandise security. Many shoppers and employees feel less safe at retail establishments than they did before, with these results: Some people are unwilling to shop at night. Some people age 60 and older no longer go out at all during the night. Some shoppers believe malls are not as safe as they once were. Parking is a source of anxiety for people who worry about walking through a dimly it parking lot. In response, retailers need to be proactive. For example, the Jersey Gardens Outlet Mall in Elizabeth, New Jersey, has a very sophisticated camera-surveillance network, complete with 220 cameras hat monitor every inch of the center. As the manager noted, "We opened with a very strong security presence and have always taken a serious approach to security measures here. Since the center's opening, the system has been upgraded, and it can continue to be upgraded for years?

These are among the practices retailers are utilizing to address this issue:

(1) Uniformed security guards provide a visible presence that reassures customers and employees, and it is a warning to potential thieves and muggers. Some malls even have horse-mounted guards. This is a big change: "Mail management wants us to be less ambassadors of goodwill and is asking us to take a more aggressive approach. They are asking us to not watch and wait too long if we spot suspicious behaviour?

(2) Undercover personnel are used to complement uniformed guards.

(3) Brighter lighting is used in parking lots, which are also patrolled more frequently by guards. These guards more often work in teams.

(4) TV cameras and other devices scan the areas frequented by shoppers and employees.

(5) Some shopping areas have curfews for teenagers. This is a controversial tactic.

(6) Access to store backroom facilities (such as storage rooms) has been tightened.

(7) Bank deposits are made more frequently – often by armed security guards

8.8 STORE INSURANCE

Among the types of insurance that retailers buy are workers' compensation, product liability, fire, accident, property, and officers' liability. Many firms also offer health insurance to full-time employees. Sometimes they pay the entire premiums; other times, employees pay part or all of the premiums.

Insurance decisions can have a big impact on a retailer:

(1) In recent years, premiums have risen dramatically.

(2) Several insurers have reduced the scope of their coverage; they now require higher deductibles or do not provide coverage on all aspects of operations (such as the professional liability of pharmacists).

(3) There are fewer insurers servicing retailers today than a decade ago; this limits the choice of carrier.

(4) Insurance against environmental risks (such as leaking tanks) is more important due to government rules.

To protect themselves financially, a number of retailers have enacted costly programs aimed at lessening their vulnerability to employee and customer insurance claims due to unsafe conditions, as well as to hold down premiums. These programs include no-slip carpeting, flooring, and rubber entrance mats; frequently mopping and inspecting wet floors; doing more elevator and escalator checks; having regular fire drills building more fire-resistant facilities; setting up separate storage areas for dangerous items; discussing safety in employee training; and keeping records that proper maintenance has been done.

8.9 CREDIT MANAGEMENT

These are the operational decisions to be made in the area of credit management.

(1) What form of payment is acceptable? A retailer may accept cash only, cash and personal checks, cash and credit card(s), cash and debit cards, or all of these.

(2) Who administers the credit plan? The firm can have its own credit purchase? With a check purchase, a photo ID might be sufficient. To open a new charge account, a customer must meet age, employment, income, and other conditions; an existing customer would be evaluated in terms of the outstanding balance and credit transaction.

(3) What credit terms will be used? A retailer with its own plan must determine when interest charges begin to accrue, the rate of interest, and minimum monthly payments.

(4) How are late payments or nonpayment to be handled? Some retailers with their own credit plans rely on out side collection agencies to follow up on past-due accounts.

The retailer must weigh the ability of credit to increase revenues against the costs of processing payments –screening, transaction, and collection costs, as well as bad debts. If a retailer completes credit functions itself, it incurs these costs; if outside parties (such as Visa) are used, the retailer covers the costs by its fees to the credit organization.

In the United States, there are 1.5billion credit and debit cards in use. During the Christmas holiday season alone (the day after Thanksgiving until Christmas), there are more than 23 billion retail credit and debit card transactions yearly. The average sales transaction involving a credit/debit card or a check is far higher than a cash one. Overall, one third of U.S. retail transactions are in cash, one sixth are by check, and one-half are by credit and debit card. Among retailers, accepting credit and debit card, one-third have their own card, virtually all accept MasterCard and/or Visa, 80percent accept Discover, and just over one-half accept American Express. Most firms that accept credit cards handle two or more cards.

Credit card fees paid by retailers range from 1.5 percent to 50 percent of sales for Visa, MasterCard, Discover, and American Express –depending on credit volume and the card provider. There may also be transaction and monthly fees. The total costs of retailers' own credit operations as a percent of credit sales are usually lower, at 2.0 percent. Costco has a merchant creditor-processing program so that small firms may carry Visa or MasterCard. It charges a 1.67 percent of sale fee and a transaction charge of 20 cents for store retailers; the amounts are 2.02 percent and 27cents per transaction for nonstore retailers.

Many retailers-of all types- are now placing greater emphasis on a debit card system, whereby the purchase price of a good or service is immediately deducted from a consumer's bank account and entered into a retailer's account through a computer terminal. The retailer's risk of nonpayment is eliminated and its costs are reduced with debit rather than credit transactions. For traditional credit cards, monthly billing is employed; with debit cards, monetary account transfers are made at the time of the purchase. There is some resistance to debit transactions by consumers who like the delayed-payment benefit of conventional credit cards. On the other hand, the pre-paid card, a form of debit card is booming in popularity.

(1) Retailers have more options for processing payments. For example, an E-commerce study of major online retailers found that 99percent of them accept credit cards, nearly one-half sell gift certificates, one-quarter accept electronics checks, one-fifth offer instant credit, and one-seventh have their own credit cards. For store-based retailers, training cashiers is more complex due to all the formats.

(2) Hardware and software are available to process paper checks electronically. This means cost savings for the retailer and faster payments from the bank.

Visa and MasterCard have been sued for requiring retailers to accept both credit and debit cards, if the retailers want to continue carrying Visa and MasterCard credit cards.

(1) Non-stores retailers have less legal protection against credit card fraud than store retailers that secure written authorization.

(2) Credit card transaction on the Web must instantly take into account different sales tax and currencies (for global sales).

(3) In Europe, retailers have grappled with the intricacies of converting to the common euro currency.

8.10 CONCLUSION

Until recently, the department store of retailing was able to attract a large number of customers through one stop shopping appeals, fashion forward apparel and attentive services. Although retail store chains were once considered the darlings of retailing, they have been losing market share to discount stores for years. A growing number of retailers have computerized elements of operations. Computerized checkouts and electronic point of sale systems are quite useful. With outsourcing, the retailer pays another party a handle one or more operating functions. The goals are to reduce costs and better utilize employees' time. Crisis management must handle unexpected situations as smoothly as possible. There should be contingency plans, information should be communicated to those affected, all parties should cooperate, responses should be swift and the chain command for decisions should be clear.

8.11 CHECK YOUR PROGRAMES :

1. What are the HR functions in Retail?
2. What are the training areas related to retailing sales force?
3. What is store insurance?
4. What are two components of store security?
5. What are the store management areas?

8.12. ANSWER THE CHECK YOUR PROGRESS

1. Identifying the Roles, Recuriting the person, Training, Motivating and evalation of employee performence.
2. Commication skills, product knowledge, company policy on returns, knowledge of the workplace, Market awareness and personal gromming.
3. Among the types of insurance that retailers buy are workers' compensation, protect liability, fire, accident, property and officers liability.

4. Personal security and merchandise security

5. Exterior : Parking, Entry & Exit, outride sign and displays

   Interior : Windows, walls, flooring, climate control and energy use to.

8.13 QUESTIONS AND EXERCISES

1. Compare and contrast the types of information and learning formats used in training development programmes in retailing.
2. Discuss the strength and weakness of the two basic types job performance measures.
3. What roles does career planning play in the management of a retailers human resources?
4. Why employees needs important in developing a retail organization?
5. How can retailers attract and retain more women and minority workers?
6. Describe the goals of compensation plan in a retail setting?
7. What are the finding of retailers have done to maximize their energy efficiency?
8. How would small and large retailers act differently for each of the following?

   a) Diversity and Recruitment

   b) Selection and Training

   c) Compensations and Supervisions

8.13 SUGGESTED READINGS :

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UNIT IX
STORE LAYOUT, DESIGN AND VISUAL MERCHANDISING

UNIT STRUCTURE :

Unit objectives

This chapter should enable you to understand and to explain

1. To highlight the process of store planning, layout and design including identifying and selecting the right location
2. To provide an insight into effective space management in retail store
3. To take the reader through the store layout applications in retailing

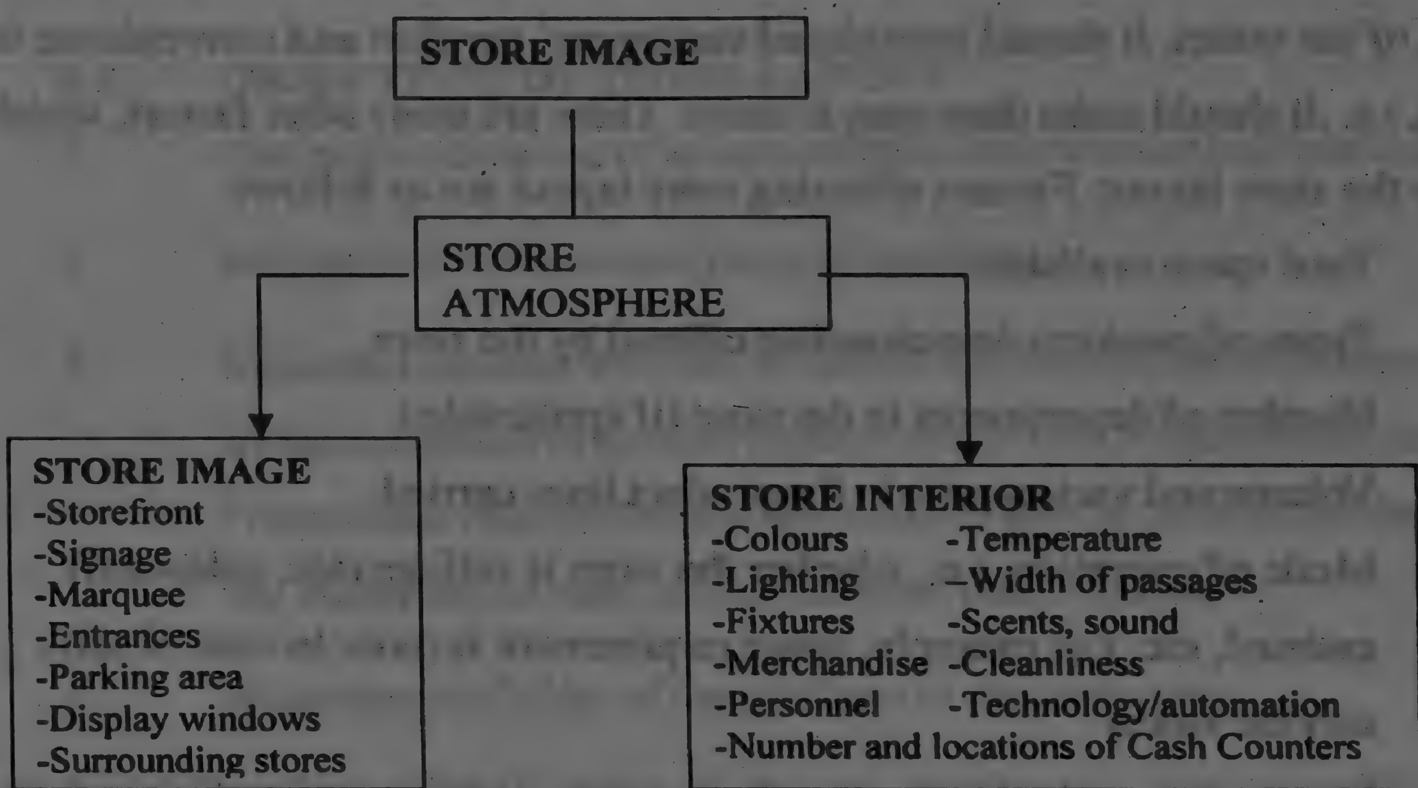
9.1 INTRODUCTION

The basic principles of stores design require that the image being created is in tune with the merchandise, the advertising and the service offered by the store. All this has to be presented in an attractive manner, and at the same time, it has to be

profitable for the retailer. Today, the competition among the retailers is no longer restricted to the products/services they sell but it is all about the total shopping experience offered to their customers. Right location, attractive and convenient store designs and layouts have become the prime considerations in the customers' retail store choice. Store location, store design, and store layout are the vital issues in the store retailing. They are the ingredients of store planning.

Selecting right location definitely helps in creating the right image of the retailer and thus contributes in the success of the retail outlet. In impulse if unplanned purchases, attractive layouts and well-organized stores have important role. These elements greatly influence consumer perceptions of the shop.

9.2 STORE ATMOSPHERE



Retail image is a broader term; Store atmosphere is a part of the retail image. It is also referred as 'atmospherics'. Atmosphere refers to the store's physical characteristics and ambience. Atmosphere is the psychological feeling a customer gets when he enters the store. Many people form their opinions about the store before entering it due to the locations and storefront or exterior of the store as well as just

after entering it due to merchandise displays, arrangements, i.e., design and layout of the shop. Atmosphere may influence customers' shopping enjoyment concepts and may make it a pleasant shopping experience. Customers may spend more time and money than originally planned due to the excellent atmosphere includes the exteriors and interiors of the store.

9.3 STORE LAYOUT

Image is critical for the retailer. Every store has a layout that decides the arrangement of the merchandise offered by that store and floor space allocated. Today, store layout is much more than mere physical arrangement of the merchandise. It acts as an affective tool in creating a distinctive/unique image of the store and attracting the customers towards the store. Layout should be designed considering the target audience of the outlet. It should considered customers' comfort and convenience in shopping, i.e. ,It should make them easy to move. There are many other factors, which influence the store layout. Factors affecting store layout are as follows:

1. Total space available.
2. Types of products /merchandise offered by the store.
3. Number of departments in the store (if applicable)
4. Volume and variety ratio in the product lines carried.
5. Mode of operation, i.e., whether the store is self-service, sales-staff assisted, etc. For example, space requirement is more in case of self-service stores
6. Movement required in the store for locating, picking, storing the products.
7. Target audience/customers and average number of customers visiting the store.
8. Service requirements, size and location of service departments, facilities for the store employees, etc.

9. **Degree of changes in the operations. If there are frequent changes in the product lines or additions in the store offerings, existing layout need to be altered. Hence, the layout must be flexible and versatile.**

10. **Stock/inventory level. For example, the retailers who use automated order processing, follow supply chain, maintain less inventory hence they occupy a little space. On the other hand, traditional retail shops such as grocery or kirana shops, shoe marts, hardware shops, spare parts shops, etc. maintain large inventory, which occupies a larger portion of the total space available.**

Since the retail space is often scarce and expensive, retailers try to get optimum use of the space available. Hence, now many retailers use special software's for scientific allocation and maximum utilization of the floor space.

9.3.1 OBJECTIVES OF STORE LAYOUT

1. Optimum utilization of space available both vertical and horizontal.
2. Minimum movement and product handling.
3. Minimum distance traveled. In case of self-service stores, distance traveled by the customers to get the required products or minimum physical efforts / movement required by the sales men to get the products demanded by the customers in case of conventional retail outlets.
4. Maximum visibility of the products to the customers.
5. Maximum accessibility to the customers in case of self-service outlets, where customers pick up the products of their choice from the racks. Time poor customers want to spend minimum possible time in shopping. If such time customers do not find their required products easily or if they need to travel more within the store to locate the products, which they want, they get irritated and may permanently ban that store. Hence, the store

layout should ensure maximum accessibility, visibility of products and minimum movement.

6. Maximum encouragement to the customers to visit as many departments/ product areas as possible. This objective can be achieved with the help of choosing appropriate type of layout as well as by using clear and creative signage.

7. Maximum flexibility in changing the layout / entire set up if required, in minimum cost and time.

8. Ease in maintenance of the store. The fixtures, racks, counters, etc. should be arranged in such a manner that it is easier to move, repair and clean the floor.

9. Maximum safety for the employees working in store and the customers visiting the store. This is especially applicable in case of large retailers, who make optimum utilization of vertical space to stack the products.

9.3.2 TYPES OF THE STORE LAYOUT

Store layout can be designed in many different ways. Retailer can select most appropriate type of layout for the store considering these factors. Some common types of store layout are discussed below. They are also known as traffic patterns or circulation patterns.

1. Free Flow Layout: This is the simplest form. Free flow layout is also known as 'boutique layout'. Customers can move freely throughout the outlet. There is no defined traffic flow. Fixtures, racks, counters are arranged asymmetrically. Customers are relaxed due to the informal arrangement and environment. Hence, they may spend more time in the shop and purchase the products, which they have not planned to purchase. This pattern is suitable when the shops are relatively small and when there are no departments / sections or identified areas for the particular product lines.

However, this pattern is used for the departments within the large outlets. Customers get access to all the merchandises offered by the store. This layout works well with general merchandises with a limited variety but is not suitable when the store offers larger variety in the specialized products.

2. Grid Layout: In grid layout, traffic flow is in a straight line. This pattern is suitable when rectangular space is available. Counters, shelves and fixtures are arranged in the long rows. Supermarkets and food retailers often use this pattern. They also make effective use of vertical space. This arrangement encourages the customer to visit the entire shop. Self-service is possible hence les sales staff is required. Grid layout is cost effective as there is less wasted space. Shelf management however is a crucial part for the retailers. For example, if customers are forced to visit the entire store, i.e., they have to travel more for locating the routine products/frequently purchased products, they may get frustrated and may ban that store permanently.

3. Loop Layout: This layout is also known as 'racetrack layout'. This flow pattern is also suitable when rectangular space is available. This pattern enhances the productivity of a retail store. The loop begins at the entrance and returns the customer to the front of the store. This layout encourages the customers to visit multiple departments. The customers can view the merchandises kept at both sides. Thus, the racetrack design encourages impulse purchasing. The retailer can display as many products as possible and enhance the productivity of the store.

4. Spine Layout: This layout combines merits of free-flow, grid and loop layouts. Traffic flow is in a straight line running from the front to the back of the store. Merchandises can be displayed on both the side of the spine. Alternatively, departments can be formed on both the sides with a common back or sidewalls. Within these departments, either a free flow or grid layout can be used. However, this arrangement is possible when sample space is available.

9.4 STORE DESIGN

The store design and layout tells a customer what the store is all about. It is a very strong tool in the hands of the retailer, for communicating and creating the image of the store on the mind of the customers. It is the creation if this image that is the starting point of all marketing efforts. The importance of store design needs to be understood from the perspective of the retailer and from the perspective of the customer.

The design and layout of the store are a means of communicating the image of the retail store. The primary considerations that the retailer takes into account while choosing the look for the store are target audience, their needs and buying habits and the merchandise that he is going to cell. Creating a store image is like giving a personality to the store. It is what the store is all about.

For the consumer, a store needs to be simple to navigate, it must appeal to his sensory perceptions and must create a sense of relationship, a sense of security or assurance and a sense of pleasure in the shopping experience. While the merchandise, the sales personnel, the location and the pricing, all work towards creating an image, it is the physical attributes of a store, which affect the customer's sensory perceptions, and makes him relate to the store in a particular manner. They work with the other elements towards creating the desired image or atmosphere.

The exterior look of the store interiors and the store interiors, both play and important role. In the following section, we look at the various elements of exterior and interior store design.

9.4.1 ELEMENTS OF STORE DESIGN

1. Location
2. Building Architecture
3. Target Customers

4. Merchandise Mix

In case the retail store is located in a shopping centre or mall, the architecture and the overall look of the mall or centre has to be taken into consideration. The kind of image being projected by the promoters of the wall, also influences the images of the retail store. For example, a retail store located in a five star hotel carries the image of the five star.

The exterior store design is a combination of store windows, lighting and the identity of the store. It is commonly termed as the 'marquee'. The exterior store design plays a key role in getting the customer into the store and creating the image for the role.

9.4.2 STORE'S EXTERIOR

Store's exterior is also referred as storefront. A store's exterior includes the entrances, marquee, height and number of display windows, uniqueness and visibility of store, etc. The impact of store's exterior is also very important as it is the first part of a store seen by the consumers and this is the first part of a store seen by the consumers and this is the first impression that they carry when they enter the store. Then they look to the layout, displays, wall and floor colours, and lighting kind of sales personnel that is overall store's atmosphere. This creates store image in their mind. Following points are mainly considered in the store exterior:

1. Signage

The store is signage is important element of the storefront. Huge, creative and colourful signage often attracts the customers' attention. Considering the importance of signage, many retailers invite creative people to suggest unique and catch name for their store and design the distinctive signage.

2. Store Structure

Various alternatives of store structure are available. Franchisees and chain stores use prototype store structure, as they have to maintain uniformity and consistency in store atmosphere and ambience. Whereas big shopping malls and business arcades prefer modular store structure, which is a one-piece rectangle or square that consists structure, which is a one-piece rectangle or square that consists of several shops.

3. Entrances

Store entrance is important element in the store exterior. Number and type of entrances have to be considered. Generally, small stores have single entrances. Big outlets can have more number of entrances. They use front and back entrances that serve many purposes. The entrance at the backside is used for material handling – entry and exit.

4.Display Windows

Display window can attract the price-conscious customers by showing sale-item and get the attention of non-price conscious customers by displaying unique, ethnic pieces, seasonal, or even offbeat items. Attractive display window, hence many retailers hire the outside specialist which guide on what to display, how much to display, where to display what, etc. They take decision on number, size, shape, colour and themes of display windows, frequency of changes per year, etc.

5. Parking Facilities

Hypermarkets, supermarkets, department stores or for that matter any retail outlets who consider customer's convenience and try to offer best services to their customers, must consider satisfaction. Parking facility has become critical issue today in the Indian metros, as these outlets are located in the highly populated market places.

Many a times, it is the exterior look of the store that draws a customer to the store-it is the first impression that a customer has of the store. Interesting window displays an impressive building, and an inviting entrance, all work together to entice the customer to enter the store. Simple things like the manner in which the store name is written, also play a part in attracting the customer's attention. All these form a part of the exterior look of the store ad are ensuring that it works aware of the impact that a store's exterior has on the image of the store and are ensuring that it works in their favour.

The exterior store design is a function of the location of the store site; it is a combination of various factors, like the site itself, facilities like parking and the ease of access. The architecture of the building is a combination of the frontage and exterior of he building, the display space and the health and safety provisions provided. Health and safety standards may and not really because of concern for Indian retailers, though they are an important factor internationally. Some retailers use the exterior of the store to showcase new campaigns. Heritage buildings, like the Pantaloons store in Pune, Maharashtra, also help create a special look for the store. The store theme is in turn decided on by the target customers that the store intends to serve and the merchandise mix offered.

9.4.3 INTERIOR STORE DESIGN

Store interiors are a function of the fixtures, flooring, ceiling lighting and signage's used within the store, to create a particular look. While aesthetics are an integral part of interior store design, what also has to be consideration is the operating expenses and the element of customer satisfaction. Let us now consider each of the above-mentioned elements.

a) Fixtures

Fixtures are used for storing and displaying merchandise. They may be floor fixtures, or wall fixtures, and are manufactured in various materials, like wood,

glass, steel and synthetic. Examples of fixtures include table, racks, stands, shelves, gondols, bins and other material, which may be used to display merchandise. Ideally, fixtures should be flexible, so that the size can be varied to suit the merchandise being displayed.

b) Flooring and Ceilings

The floorings, ceilings and the wall work together to create an image. Ceilings are important because they house the air-conditioning and the fighting. The right lighting is necessary for the merchandise to be seen in its true colour and form. A store may adopt different types of flooring, depending upon the image that it strives to create. For example, a high priced jewellery showroom may use carpets, while a supermarket would use flooring which is easy to maintain.

c) Lighting

Lighting is a key factor of retail design. The lighting scheme to be adopted for the store has to be done keeping in mind the kind of products being sold in the store, and the target audience. Effective lighting is a key in the sale of merchandise and also helps create a favourable first impression of the merchandise and its surroundings.

d) Graphics and Signage's

Graphics and Signage's inform the customers about the products, merchandise, price, special offers and they might also direct customers. Signage's and graphics, when used in store window, can compel customers to enter the store, it is common for many retailers to use posters, photo enlargements in the windows. When merchandise is placed near such photos and Signage's, the look is enhanced.

Graphics and Signage's inside the store can help identify brands indicate items like "new releases". Or "new arrivals" as the case may be, offer directions to

various departments within the store or simply help the customer locate the products that he seeks. Graphics within the store may be classified into:

1. **Theme Graphics** These are graphics, which relate to a particular theme being followed throughout the retail store/ chain.
2. **Campaign Graphics** Campaign graphics related to the current advertising campaign
3. **Promotional Graphics** These are graphics that pertain to the promotional campaign being carried out in the store. This may be with reference to a particular department.

Signages, on the other hand, can be:

1. Merchandise Related Signages related to merchandise inform the customers about the location, type, prices or features of the merchandise available within the store.

2. Directional Signs Directional signs are needed in the store, to direct customer towards the cash counters, gift wrapping areas, customers services areas, washrooms the location of the lifts, staircases and trial rooms, etc.

3. Instructional Signs Examples of instructional signs informing persons entering the store, that the store is under electronic surveillance, about the malfunctioning of a lift, caution statements, etc.

4. Courtesy Signs Examples include signs like "thank you" or "visit again"

5. Store Directory A store directory informs the customers about the location of the various sections in the store. The most common places to find a store and places where customers may move from one section/ floor to another.

9.5 OBJECTIVES OF A GOOD STORE DESIGN

The main objectives of a good store design should be

1. The store design must complement the customers needs like be consistent with image and strategy
2. The store design and layout should act positively on consumer behaviour
3. A good store design must consider the costs associated versus the values received in terms of higher sales and profits
4. The store design should be flexible to adopt any changes in the merchandise with stores image.

Creating an environment for consumer purchases through design

Retail outlets have to work towards enticing impulse purchase i.e they have to create an attractive store design which will motivate consumers to visit and purchase goods at the stores. For this the retailers need to work on the four dimensions of retail design which are design logic, design execution and design output.

i) Design logic

The design logic has to be analyzed and woven into the retail design keeping in line with the consumers' rational and functional need and desires. The design logic must be relevant to the three human components, which form the sociological, psychological and historical background of consumers and this is a part of the subconscious mind where his emotional attachment resides.

ii) Design Expression

Approaching the retail business with the emotion evoked in a differentiable expressive concept is referred to as design expression, i.e the retail design should so eloquently express itself that is compels the consumer to experience the need to step inside and purchase all essential items and not just the occasional purchase.

iii) Design Execution

The retailers should create and execute the store design that the customer will be surprised with such differentiating execution and then elevate the outlet from

the ordinary commodity market. This execution is possible only through combining the rational, functional and emotional content of delivery.

iv) Design Output

The design output should be such that it gains sustainable connectivity to the consumer's subconscious mind. This is really a challenge for the retailer because the retail store design must encompass aesthetics, the consumers desires and mind, an attractive in shop merchandising design and a striking external character.

9.6 STORE LOCATION

Selection of the right location goes a long way in the success of the retail outlet. Selection of store location is a key decision in retail management and has a long –term effects as a substantial investment is involved. A convenient location is the prime consideration in a customer's store choice.

While selecting location, the retailer has to first broadly identify the geographical area/site and then the retailer can choose from to the particular sites. For example, the retailer will initially decide whether he wants to star the outlet in main city or suburbs /downtowns, town or some other location. Then the retailer decides whether wants to open the free standing malls, shopping centers, shopping complexes, etc. Retailers may alternatively think about the non –conventional locations.

Every location offers some merits and demerits. Hence, the retailer must select the location, which is suitable to the retailer operations and offers maximum benefits to him. Retailer has to consider several factors while choosing the store locations.

Factors affecting store location are a follows:

1. Capital /Finance available.
2. Cost and availability of land in the desired location
3. Basic infrastructure facilities
4. Safely and security considerations

5. Type/form of retailing activity, i.e., whether it is a general store, specialized store, department store, supermarket, etc
6. Nature of merchandise offered at the store/the product lines carried by the store
7. Nature of the potential customers
8. Availability of parking space
9. Traffic flow and accessibility
10. Existence of competitors' outlets
11. Demand density, i.e., the extent to which potential demand for the retailer's goods and services is concentrated in that particular area
12. Potential for future expansion
13. Government's regulation, taxes and other legal issues
14. Expected profitability or Return On Investment (ROI)

Considering all these factors, the retailer should conduct a site selection analysis of the top ranking sites in each market and select the right location, which is cost-effective and profitable to the retailer as well as most convenient and preferred to the customers.

9.7 SPACE PLANNING

Space planning helps a retailer determine the amount of space available for selling and for storage. It also helps determine the following:

1. The location of the various departments
2. The location of the various products within the department – the creation of planograms.
3. The pros/ cons of specific location for impulse products, destination areas, seasonal products, products with specific merchandising needs and adjacent departments (Complementary goods).
4. The relationship of space to profitability

Space planning is not only an element of retail design, but is also an element of merchandise management/ category management. Since category/merchandise mangers are responsible for the overall profitability of the merchandise it is linked to the retail space allocated for the merchandise within the store.

When one walks into a department store, one rarely thinks about the reason behind the location of various departments and placement of products. The retailer has to take into accounts, various factors while determining the location of the various departments.

The first factor that is taken into consideration is the amount of traffic generated by that department and the potential sales. The items having high demand and a fair amount of traffic are not necessarily placed near the entrance of the store. They are usually located in low traffic areas. Products like fragrances, jewellery and cosmetics, which are largely impulse items, the may be placed near the entrance of the store. For example a retailer like shopper's stop places impulse items on the ground level of the store. For example a retailer like shoppers shop places impulse items on the ground level of store. Products like men's wear women's wear children wear and casual warm are placed at a higher level in the multi level store. After its recent acquisition of the bookstore chain crossword, the crossword corners have been placed in the children's and home section. This has been done to encourage footfalls of women's and children into the book corner.

1. An analysis of the footfalls in the department the sales potential of the various departments and a basket analysis of what customers are likely to buy is another factor. Ideally, merchandise should be laid out in the manner that customer would buy them, rather than as departments. For example in the coordinated manner, along with the clothes.

2. Many retailers adopt cross mix merchandising which enables a customer to visualize how various products would look together. Retailer may also create areas within the store, where all products may be displayed together. This helps the customer visualize how various products would look together and also encourage purchases.

3. Retailers, very often, resort to merchandising similar products together. This enables the customers to efficiently use their time while in the store. Placing similar products together inside the store is called a shop interior, anchor area or niche. This is sometimes called creating a store, is called within a store. These areas are the basic building blocks of the store and retailers, most commonly; use this type of interior of interior organisation. When create an anchor area, merchandise is usually placed together according to similarity inn product, brand colour or texture. For instance, in the home section, all lamps may be in one section, all lamps may be in one section, while all the bed sheets, etc, will be in another. This product grouping allows customers to quickly find what they are looking for and to see the breadth offered within any given category.

9.8 THE PLANOGRAM

A planogram is a tool used by the retailer, and it helps determine the location of merchandise and props physically fit onto a store fixture or window, to allow for proper visibility and price point options. A Planogram is created after taking into account, factors like product sales, the movement of the products within the product category and the space required for the various products. They usually list the exact number of square feet used for the various products and the exact number of products to be displayed in a particular area.

For a retailer who has a number of stores spread over various locations, a planogram is a good way of community how displays are to be done. This allows for consistency in presented, across locations. When products are presented in the same

manner across locations, the customer feels familiar and comfortable at each location. This helps to building brand loyalty and customers trust.

The awareness and importance of design is fast increasing in Indian retail. Eventually, retail, design will help business compete and create unique images in a crowded marketplace. In India, some retailers are gradually waking up to this truth. The most striking aspect of the interiors was the disproportionate amount of square feet, versus the number of people, at any given time. Today, the shabby ambience has made way for a swanky, yet friendly store.

Elegant, tasteful and hushed, the store s and ideal showcase of modern India-constantly changing, yet in touch with its ancient traditions. Hence, it is not unusual to see brightly colored glass pots, sharing shelf space with terracotta and ceramic. Or, Indian block work prints, next to stark, geometric bed-spreads. The changed ambience and merchandise and the change in the name, has enabled the store to make a transition to a lifestyle store.

9.9 LEVERAGING SPACE: IN STORE KIOSKS

In Store kiosks are spaces located within stores containing a computer connected to the stores central offices or to the Internet. In store kiosks can be used by customers or salespeople to order merchandise through a retailers electronic channel, check on product availability at distribution centers or other stores, get more information about he merchandise and scan bar codes to check the prices. Retailers are interest in installing these kiosks because they create a synergy between the store and the Internet site. Kiosks provide additional assortment choices that aren't available in stores.

Retailers will be able to achieve, their marketing objectives only if they adopt click and master strategies and use the new technology concepts such as self-service kiosks and self-checkouts. Such concepts apart from proving to be a profitable

service will also be useful in increasing the number of contact points with the customer. This is all the more necessary because of the new consumer trends visible at the market place such as : want of time, desire for entertainment, purchase linked with quality and value, information technology facilitating easy access to internet (online) and mobile phones and so on. The benefits of such self-services kiosks are many.

1. Electronic catalogues without increase in retail space van be used for range expansion
2. Expansion to other service areas like travel and financial services without increasing traffic
3. Enables customer to spend more shopping time
4. If customers go for pre-ordering and selecting, it will result in reduced attendant services time
5. Increase in sales points for the retailer without adding fresh space
6. Shopping becomes a pleasurable experience when sufficient in-store assistance is provided to customers to select the desired merchandise from the store.
7. At times, especially when shopping for personal accessories, customers may prefer to browse in private in the kiosks, before making the final purchase. In such cases, while customers browse, the kiosk systems can also track each ones trend.
8. Supermarket retailers and established branded retailers can set up online kiosks for customers to place order for merchandise from them.

9.10 VISUAL MERCHANDISING: MERCHANDISE PRESENTATION TECHNIQUES

Many methods are available to retailers for effectively presenting merchandise to the customer. To decide which is best for a particular situation, store planners must consider the following four issues.

1. Probably most important, merchandise should be displayed in a manner consistent with the stores image.
2. Store planners must consider the nature of the product
3. Packaging often dictates how the product displayed
4. Finally, products profit potential influences display decisions.

METHODS OF PRESENTATION

a) Idea Oriented Presentation

Its method of presenting merchandise based on a specific idea or the image of the store. This technique is similar to the idea-oriented presentation in that merchandise made by the same vendor will tend to be coordinated.

b) Style or Item Presentation

Probable the most common technique of organizing stock is by style or item. Also many apparel retailers use this technique. When customers look for a particular type of merchandise, such as sweaters, they expect to find all items in the same location.

c) Color Presentation

A bold merchandising technique is by color. For instance, in winter months women's apparel stores may dispel all white cruise wear together to let customers know that store is "the place' to purchase clothing for their winter vacation.

d) Other Methods

1. Vertical merchandising
2. Tonnage merchandising
3. Frontage merchandising
4. Fixtures (Straight rack, rounder/bulk fixture, four way fixture etc)

9.11 CONCLUSION

An operations blueprint systematically lists all operating functions, their characteristics and their timing, as well as the responsibility for performing the functions. Store format and size considerations include the use of prototype stores and store dimensions. Firms often use prototype stores in conjunction with rationalized retailing. Some retailers emphasize category killer stores; other open smaller stores. In space allocation, retailers deploy a top down or a bottom up approach. They want to optimize the productivity of store space.

9.12 CHECK YOUR PROGRESS

1. What are the two components of store atmosphere?
2. What arethe types of store layout?
3. What are the elements of store design?
4. What are the components of store exteriors?
5. What consist of a store interior?

9.13 ANSWER TO 'CHECK YOUR PROGRESS'

1. Store image and store interior
2. FreeFlow layout, Grid Layout, Loop layout and spine layout.
3. Location, Building Architecture, Target customers and merchandise Mix.
4. signage, store structure, Entrances, Display windows, and parking facilities.
5. Fixtures, Flooring and Ceilings, highting, Graphics and signage's

9.14 QUESTIONS AND EXERCISES

1. Why is the physical environment of a retail establishment such an important component of retail strategy?

2. Which shopping beheaviour have been directly linked to the influence of physical surrounding?

3. What are the major components of exterior store design?

4. Discuss how the elements of interior design are used to create unique atmospheres.

5. How can store layout to be used influence customer traffic patterns?

6. What criteria may be used to organize merchandise into groupings for store layout purposes?

7. Discuss the various procedures retailers may use to allocate selling space to merchandise.

8. What is planogramming? How do retailers use it?

9. What are the objectives of in store displays? What display formats are available to the retailers?

10. How are location needs for non-selling areas determined?

9.15 SUGGESTED READINGS :-

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UNIT X

FINANCIAL ASPECTS OF OPEARATIONS MANAGEMENT

UNIT STRUCTURE

UNIT OBJECTIVES

This chapter should enable you understand and to explain

1. To explain the basic planning for profit in retailing in India

2. To provide a detailed insight into inventory management and valuation in retailing

3. To understand the retail sales forecasting, budgeting and resource allocation by retailers

1.1 INTRODUCTION

After devising an organization structure and a human resource plan, a retailer concentrates on operations management – the efficient and effective implementation of the policies and tasks necessary to satisfy the firm's customers, employees, and management. This has major impact on sales and profits. High inventory level, long hours, expensive fixtures, extensive customers services and widespread advertising may lead to higher revenues. This chapter covers the financial aspects of operations management, with emphasis on profit planning, budgeting, inventory valuation and resource allocation.

1.2 PLANNING FOR PROFIT: DEVELOPING A FINANCIAL PLAN

Understanding the concepts involved in developing an integrated retail management plan is the basis for the development of the financial plans. Financial plans encompass three major objectives.

1. To generate profits for the retailer
2. To manage cash such that obligations can be satisfied as they come due
3. To manage company growth so that it does not outpace the company's ability to obtain the cash necessity to maintain current operations

Financial reporting can be complicated. The way a company presents its financial information affects how the market place receives it. Most of the information needed to develop a financial plan and monitor the company's financial performance can be gathered by constructing budgeted financial statements (financial plans) and comparing those statements to actual results (financial statement). The financial statements allow the retailer to monitor the organization financial performance and to evaluate and control those activities that are not producing the desired results. The past performance of a retailer can provide, a basis for future planning. It is wise, therefore, to refer to the financial statements when developing retail objectives. Communication and

exchange of information is critical in the financial reporting process. Conflicting department goals often interfere with the data collection and can create" soils.

A profit and loss (income) statement is a summary of a retailers revenues and expenses over a given period of time, usually a month, quarter or year. By having frequent statements, a firm can monitor progress towards goals, update performance estimates and revise strategies and tactics. A profit and loss statement consists of these major components:

1. **Net Sales:** The revenues received by a retailer during a given period after deducting customer returns, markdowns and employee discounts.
2. **Cost of Goods Sold:** the amount a retailer pays to acquire the merchandise sold during a given time period. It is based on purchase prices and freight charges, less all discounts.
3. **Gross Profit (Margin):** The difference between net sales and the cost of goods sold. It consists of operating expenses plus net profit.
4. **Operating expenses**: the cost of running a retail business
5. **Taxes**: the portion of revenues turned over to the federal, state or local government.
6. **Net Profit after taxes:** the profit earned after all costs and taxes have been deduced.

Key Business Ratio in Retailing Sector

Ratio can also measures retailer success or failure in reaching performance goals. Here are several key business ratios is follows:

1. Quick Ratio: cash plus accounts receivable divided by total current liabilities, those due within one year. A ratio above 1 to 1 means the firm is liquid and can cover short-term debt.

2. Current Ratio: Total current assets (cash, accounts receivable, inventories and marketable securities) divided by total current liabilities. A ratio of 2 to 1 more is good.

3. Collection Period: Accounts receivable divided by net sales and then multiplied by per year. If most sales are on credit, a collection period one third or more over normal terms means slow turning receivables.

4. Accounts Payable to net sales: Accounts payable divided by annual net sales. This compares how a retailer pays suppliers relative to volume transacted.

5. Overall gross profit: net sales minus the cost of goods sold and then divided by net sales.

10.3 INVENTORY MANAGEMENT

As part of its logistics efforts, a retailer utilizes inventory management to acquire and maintain a proper merchandise assortment while ordering, shipping, handling, storing, displaying and selling costs are kept in check. First, a retailer places an order based on sales forecast or actual customer behaviour. Both the number of items and their variety are requested when ordering. Order size and frequency depend on quantity discounts and inventory costs. Second, a supplier fills the order and sends merchandise to a warehouse or directly to the store(s). Third, the retailer receives product, makes items on the sale by removing them from packing, marking prices, and placing them on the sales floor), and completes customer. The cycle starts a new as a retailer places another order. Let us look at these aspects of inventory management: retailer tasks, inventory levels, merchandise securities, reverse logistics, and inventory analysis.

Retailer Tasks

Due to the comprehensive nature of inventory management, and to be more cost effective, some retailers now expect suppliers to perform more tasks or they out source at least part of their inventory management activities: "In 1990, procedures

shipped products to retailers in a warehouse ready more. Retailers than reprocessed merchandise to package and price it for sale in the store where consumers make purchase. Today, in the era of floor ready procedures ship products that have already been packaged and prepared for prepared for immediate movement to the sales floor. As we move further into the new millennium, there will be a shift to consumer ready manufacturing where the links between producer and consumer are even more direct than traditionally.

Inventory Levels

Having the proper inventory on hand is a difficult balancing act:

1. The retailer wants to be appealing and never lose a sale by being out of stock. Yet it does not want to be "stuck" with excess merchandise that must be marked down drastically.

2. The situation is more complicated for retailers that carry fad merchandise, that handle new items for which there is no track record and that operate in new business formats where demand estimates are often inaccurate. Thus, inventory levels must be planned in relation to the products involved: staples, assortment, merchandise, fashion merchandise fads, and best sellers.

3. Customers demand is never completely predicate able even for staples. Weather, special sales and other factors can have an impact on even the most stable items.

4. Shelf space allocations should be linked to current revenues, which means that allocations must be regularly and adjusted.

Inventory Analysis

Inventory status and performance must be analyzed regularly to gauge the success of inventory management. Recent advances in computer software have made such

analysis much more accurate and timely. According to surveys of retailers these are the elements of inventory performance that are deemed most important: gross margin values, inventory turnover, gross profit percentage, gross margin return on inventory, the weeks of supply available, and the average in stock position.

10.4 INVENTORY VALUATION: THE COST AND RETAIL METHODS OF ACCOUNTING

The small business administration has an excellent guide on inventory management. Retail inventory accounting systems can be complex because they entail a great deal of data (due to the number of items sold). A typical retailer's value control system must provide such data as the sales and purchases made by that firm during a budget period, the value of beginning and ending inventory, markups and markdowns, and merchandise shortage. Top executive position over all domestic over all domestic distribution centres and logistics traffic management. May have some trucking operations for merchandise movement to and among stores. May handle import export shipping.

Distribution centre manager: This position manages one distribution centre in a firm with two or more centres. Typically will not supervise a full traffic accounting system values merchandise at current retail prices let is stud both methods in terms of the frequency with which data are obtained, the difficulties a physical inventory and record keeping, the ease of settling insurance claims (if there is inventory damage), the extent to which shortage can be computed, and system complexities.

10.4.1 The Cost Method

With the cost method of accounting the cost to the retailer of each item is recorder on an accounting sheet and or is coded on a price of merchandise container. As a physical inventory is done, item costs must be learned, the quantity of every item in stock counted, and total inventory value at cost calculated. On way to code merchandise cost is to use a 10 letter equivalency system, such as M=0, N=1, O=2, Q=4, R=5,

S=6, T=7, U=8 and V=9. An item coded with Stop has a retailer that allow price bargaining by customers (profit per item is easy to compute)

A retailer can use the cost method as it does physical or book inventories. A physical inventory means an actual merchandise count; a book inventory relies on record keeping.

A Physical Inventory System using the Cost Method

In a physical inventory system, ending inventory – recorded at cost is measured by counting the merchandise in stock at the close of selling period. Gross profit is not computed until ending inventory is valued. A retailer using the cost method along with a physical inventory system derives gross profit only as often as it does a full merchandise count. Since most firms do so just once or twice years, a physically inventory system alone imposes limits on planning. In addition, a firm might be unable to compute inventory shortages (due to pilferage and unrecorded breakage) because ending inventory value is set by adding the costs of all items in stock.

A Book Inventory system using the Cost Method

A book perpetual inventory system avoids the problem of infrequent financial analysis by keeping a running total of the value of all inventory on and at cost at a given time. End of month inventory values can be computed without a physical inventory, and frequent financial statements can be prepared. In addition, a book inventory lets a retailer uncover stock shortages by comparing projected inventory values with actual inventory values through a physical inventory.

FIFO and LIFO are two ways to value inventory. The FIFO (First In First Out Method) logically assumes old merchandise is sold first, while newer items remain in inventory. The LIFO (Last In First Out) method assumes new merchandise is sold first, while older stock remains in inventory. FIFO matches inventory value with the current cost structure – the goods in inventory are the cones bought most recently,

while LIFO matches current sales with the current cost structure – the goods sold first are the ones bought most recently. When inventory values wise, LIFO offers retailers a tax advantage because lower profits are shown.

Disadvantages of Cost Based Inventory Systems

Cost based physical and book systems have significant disadvantages.

1. Both require that a cost be assigned to each item, in stock (and to each item sold) when merchandise costs change cost based valuation systems work best for firms with low inventory turnover, limited assortments, and high average prices – such as car dealers.

2. Neither cost based method adjusts inventory values to reflect style changes, end of season markdowns or sudden surges of demand (which may raise prices). Thus ending inventory value based on merchandise cost may not reflect its actual worth. This discrepancy could be trouble some if inventory value is used in filling insurance claims for losses.

Despite these factors, retailers that make the products they sell – such as bakeries, restaurants and furniture showrooms – often keep records on a cost basis. A department store with these operation can use the cost method for then and the retail method for others areas.

10.4.2 The Retail method

With the retail method of accounting closing inventory value is determining by calculating the average relationship between the cost and retail values of merchandise available for sale during a period. Though the retail method overcomes the disadvantages of the cost method, it requires detailed records an dis more complex since ending inventory is first valued in retail amount an then converted to compute gross margin (gross profit).

There are three basic steps to determine ending inventory value by the retail method.

1. Calculating the cost complement
2. Calculating deduction from retail value
3. Converting retail inventory value to cost

1. Calculating the cost complement

The value of beginning in inventory, net purchases, additional markups and transportation charges are all included in the retail method. Beginning inventory and net purchase amounts (purchases less returns) are recorded at both cost and retail levels. Additional markups represents the extra revenues received when a retailer increases selling prices, due to inflation or unexpectedly high demand. Transportation charges are the retailer's costs for shipping the goods it buys from suppliers to the retailer.

2. Calculating Deductions from Retail Value

The ending retail value of inventory must reflect all deductions from the total merchandise available for sale at retail. Besides sales, deductions include markdowns (for special sales and end-of-season goods), employee discounts, and stock shortages (due to pilferage and unrecorded breakage). Although sales, markdowns, and employee discounts can be recorded throughout an accounting period, a physical inventory is needed to learn about stock shortages.

Occasionally, a physical inventory may reveal a stock overage-an excess of physical inventory value over book value. This may be due to errors in a physical inventory or in keeping a book inventory. If averages occur, ending retail book value is adjusted upward. In as much as a retailer has to conduct a physical inventory to compute shortage (averages), and a physical inventory is usually taken only once or twice a year, shortages (averages) are often estimated for monthly merchandise budgets.

Advantages

Compared to other techniques there are several advantages to the retail method of accounting.

1. Valuation errors are reduced when conducting a physical inventory since merchandise value is recorded at retail and costs do not have to be decoded.
2. Because the process is simpler, a physical inventory can be completed more often. This lets a firm be a firm be more aware of slow moving items and stock shortage.
3. The physical inventory method at cost requires a physical inventory to prepare a profit and loss statement. The retail method lets a firm set up a profit and loss statement based on book inventory. The retailer can then estimate the stock shortages between physical inventories and study departmental profit trends.
4. A complete record of ending book values helps determine insurance coverage and settle insurance claims. The retail book method gives an estimate of inventory value throughout the year. Since physical inventories are usually taken when merchandise levels are low, the book value at retail lets retailers plan insurance coverage for peak periods and shows the values of goods on hand. The retail method is accepted in insurance claims.

Limitations

The greatest weakness is the bookkeeping burden of recording data. Ending book inventory figures can be correctly computed only if the following are accurately noted. The value of beginning inventory (at cost and at retail), shipping charges, markups, markdowns, employee discounts, transfers from other departments or stores, returns, and sales. Although personnel are freed from taking many physical inventories, ending book value at retail may be inaccurate unless all required data are precisely recorded. With computerization this potential problem is lessened.

Another limitations is that the cost complement is an average based on the total cost of merchandise available for sale and total retail value. The ending cost value only approximates the true inventory markups from slow selling items or if there are wide variations among the markups of different goods.

3. Converting Retail Inventory value to cost

The retailer must next convert the adjusted ending retail book value of inventory to cost so as to compute dollar gross profit gross margin. The ending inventory at cost equals the adjusted ending retail book value multiplied by the cost complement.

10.5 DESIGNING CONTROL UNITS

Merchandise forecasting and budgeting requires the selection of control units, the merchandise categories for which data are gathered. Such classification must be narrow enough to isolate opportunities and problems with specific merchandise line. A retail wishing to control goods within departments must record data on value allotments separately for each category.

Knowing that total markdowns in a department are 20 percent above last years levels is less valuable than known the specific merchandise lines in which large markdown are being taken. A retailer can broaden its control system by combining categories that comprise a department. However, a broad category cannot be broken down into components.

It is helpful to select control units consistent with other company and trade association data. Internal comparisons are meaningful only when category is stable. Classifications that shift over time do not permit comparisons. External comparisons are meaningful if control units are dissimilar for a retailer and its trade associations. Control units may be based on departments' classifications within departments price line classifications and standard merchandise classifications.

The broadest practical classification for financial record keeping is the department, which lets a retailer assess each general, merchandise grouping or buyer. Even the small retailer needs to acquire data on a departmental basis (tools and equipment, supplies, house wares, and so on) for buying, inventory control and markdown decisions.

To obtain more financial data classification merchandising can be used, whereby each department is subdivided into further categories for related types of merchandise. In planning its tools and equipment department, Retailer can keep financial records on both overall departmental performance and the results of such categories as lawn mowers/ snow blowers, power tools, hand tools, and ladders.

A special form of classification merchandising uses price line classifications sales inventories and purchases are analyzed by price category. This helps if different models of product are sold at different prices to different target markets

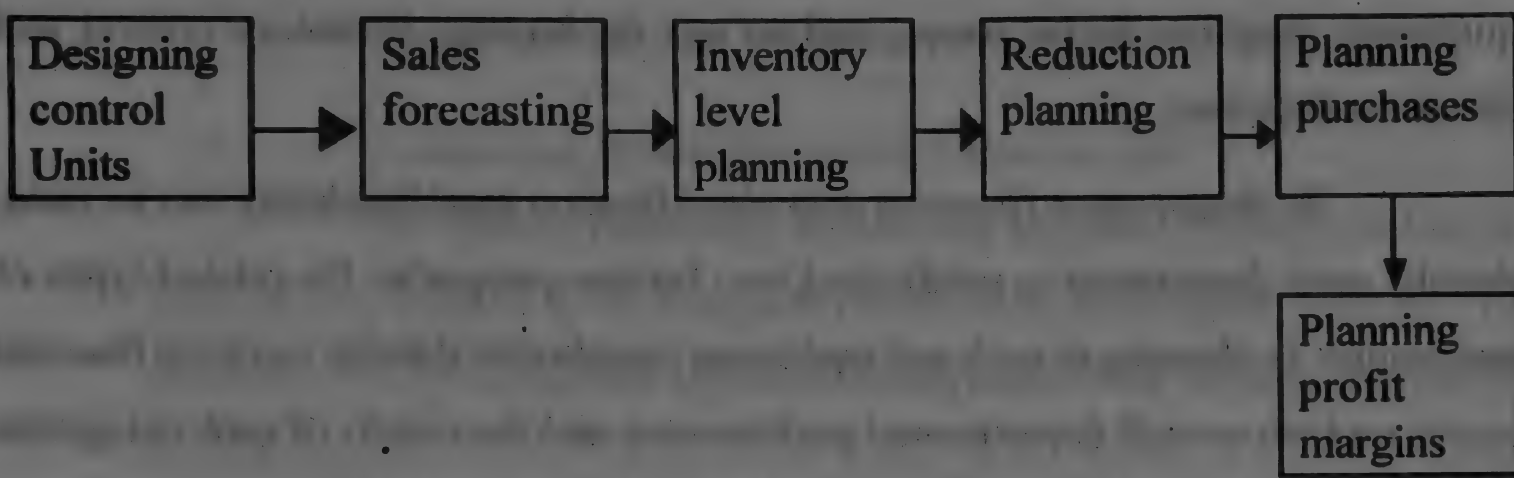
Retailers with deep assortments most often use price line control to best contrast its data with industry averages a firm merchandise categories should conform those cited in trade publications. The national retail federations divide a standard merchandise classification with common reporting categories for a range of retailers and products. It annually produces retail horizons, using its classifications. Specific classifications are also popular for some retailers. Progressive Grocer regular publishes data based on standard classifications for supermarkets.

Once appropriate value control units are set all transactions including sales purchases, transfer, markdowns, and employee discounts – must be recorded under the proper classification number.

10.6 SALE FORECASTING

A retailer estimates its expected future revenues for a given period be sales forecasting. Forecast may be company wide, departmental and for individual

merchandise classifications. Perhaps the most important step in financial merchandise planning is accurate sales forecasting, because an incorrect projection of sales throw



off the entire process. That is why many retailers have state of the art fore casting systems

Larger retailer often forecast total and department sales by techniques such as trend analysis, time series analysis and multiple regression analysis of these techniques beyond the scope of this book. One way to forecast sales for narrow categories is first to project sales on a company basis and by department, and then to break down figures judgmentally into merchandise classifications.

External factors, internal company factors, and seasonal trends must be anticipated and taken into account. Among the external factors that can affect projected sales are consumer trends competitor actions the state of the economy, the weather and new supplier offering methodology to analyze and forecast the relationship to analyze and forecast the relationship among consumer demand, store traffic, and the weather. Internal company factors that can impact on future sales include additions and deletions of merchandise lines revised promotion and credit policies changes in hours, new outlets and store remodeling. With many retailers seasonality must be considered in setting monthly of quarterly sales forecast.

10.7 INVENTORY LEVEL PLANNING

At this point, a retailer plans its inventory. The level must be sufficient to meet sales expectations allowing a margin for error. Techniques to plan inventory levels are the basic stock, percentage variation, week's supply, and stock to sales methods.

With the basic stock methods a retailer carries more items that it expects to sell over a specified period. There is a cushion if sales more than anticipated, shipments are delayed, or customers want to select from a variety if items. It is best when inventory turnover is low or sales are erratic over the year. Beginning of month-planned inventory equals planned sales plus a basic stock amount:

Basic stock (at retail) = Average monthly stock at retail – Average monthly by sales

Beginning of month Planned
Inventory level (at retail) = planned monthly sales + basic stock

If XY Limited, with an average monthly 2007 forecast of Rs.73, 423,wants extra stock equal to 10 percent of its average monthly forecast and expects January 2007 sales to be Rs.49,193:

Basic stock (at retail) = Rs.73, 423x1.10)- Rs.73, 423= Rs.7, 342.
Beginning of January Planned
Inventory level (at retail) = Rs.49, 193+ Rs.7342= Rs.56,535

In the percentage variation method, beginning of month planned inventory during month differs from planned average monthly stock by only one held of that months variation from estimated average monthly sales. This method is recommended if stock

turnover is more than six times a year or relatively stable, since it results in planned inventories closer to the monthly average than other techniques.

Beginning of January Planned
Inventory level (at retail) = Planned average monthly stock at retail x ½ (1+Estimated monthly sales/ estimated average Monthly sales)

If XY Ltd plans average monthly stock of Rs.80765 and November 2007 sales are expected to be 4 percent less that average monthly sales of Rs.73,423, the store planned inventory level at beginning of November 2007 would be:

Beginning of January Planned
Inventory level (at retail) = Rs.80,765x1/2[1+(Rs.70,487/ Rs.73,423)]
= Rs.79,150

XY Ltd should not use this method due to its variable sales. If it did, the company would plan a beginning of December 2007 inventory of Rs.94,899, less than expected sales (Rs.99,121)

The weeks supply method forecasts average sales weekly, so beginning inventor equals several weeks expected sales it assumes inventory is in propagating to sales. Too much merchandise may be stocked in peak periods and too little during slow periods.

Beginning of January Planned
Inventory level (at retail) = Average estimated weekly sales X Number of weeks to be stocked

If XY Ltd forecasts average weekly sales of Rs.10956.92 from January 1, 2007 through March 31, 2007 and it wants to stocks 13 weeks of merchandise (based on expected turnover), beginning inventory would be Rs.142, 440

Beginning of January Planned
Inventory level (at retail) = Rs.10956.92 x 13 = Rs.142440

With the stock to sales method, a retailer wants to maintain a specified ratio of goods on hand to sales. A ration of 1.3 means that if XY limited plans sales of Rs.69018 in April 2007, it should have Rs.89723 worth of merchandise (at retail) available during the month. Like the weeks supply methods. This approach tends to adjust inventory more drastically than changes in sales require.

10.8 BUDGETING FOR MERCHANDISE AND FORECASTING

Budgeting outlines retailers planned expenditures for a given time based on expected performance. Costs are linked to satisfying target market, employee and management goals.

a) What should personnel cost be to attain a certain level of customer services?

b) What compensation amount will motivate salespeople?

c) What operating expenses will generate intended revenues and reach profit goals?

There are several benefits from a retailers meticulously preparing budget:

1. Expenditures are clearly related to expected performance and costs can be adjusted as goals are revised. This enhances productivity
2. Resources are allocated to the right departments, product categories and so on
3. Spending for various departments, product categories and so on is coordinated

4. Planning is structured and integrated the goal of efficiency is prominent
5. Cost standards are set such as advertising equals 5 percents of sales
6. Expenditures are monitored during a budget cycle
7. A firm can analyze planned budgets versus actual budgets
8. Costs and performance can be compared with industry averages.

A retailer should be aware of the effort in the budgeting process, recognize that forecasts may not be fully accurate and modify plans as needed. There are six preliminary decisions.

1. Budgeting authority is specified
2. The time frame is defined
3. Budgeting frequency is determined
4. The level of detail is set
5. Budget flexibility is prescribed

10.9 RESOURCE ALLOCATION

In allotting financial resources, both the magnitude of various costs and productivity should be examined. Each has significance for asset management and budgeting.

i) The Magnitude of Various Costs

It can be divided into two categories. Capital expenditure are long term investments in fixed assets. Operating expenditures are short term selling and administrative costs in running a business. It is vital to have a sense of the magnitude of various capital and operating costs.

ii) Productivity

Due to erratic sales, mixed economic growth, high labour costs, intense competition and other factors, many retailers place great priority on improving productivity, the efficiency with which a retail strategy is carried out. Productivity

can be described in terms of costs as a percentage of sales the time it takes a cashier to complete a transaction, profit margins, sales per square foot, inventory turnover, and so forth. There are two ways to enhance productivity:

1. A firm can improve employee performance, sales per foot of space, and other factors by upgrading training programs, increasing advertising and so forth
2. It can reduce costs by automating, having suppliers do certain tasks and so forth

10.10 CONCLUSION

The purpose of financial merchandise management is to stipulate the retailer buys products, when and in what quantity. Financial merchandise management encompasses accounting methods; merchandise forecast and budgets, unit control. The two accounting technique for retailers are the costs and retail methods of inventory valuation, physical and perpetual procedures are possible with each. Physical system requires counting merchandise at prescribed times. Book inventory valuation relies on accurate book keeping and a smooth data flow.

10.11 CHECK YOUR PROGRAMS

1. What are the two methods of Inventory?
2. What are the key business Ratios in Retailing?
3. What you mean by FIFO & LIFO?
4. What are the steps in sales forecasting?
5. What factors are to be considered before resource allocation.

10.12 ANSWER TO CHECK YOUR PROGRESS

1. Cost method and Retail method
2. Quick Ratio, convert Ratio, collection period, Accounts payable to Net sales and overall gross profit.
3. First in First out and

   Last in First out

4. Desiging control units, sales forcasting, Inventory planning, Reduction planning, planning purchases and planning profit margins.
5. The magnitute of various costs and productivity of the merchendise.

10.13 QUESTIONS AND EXERCISES

1. Which retailers can best use a perpetual inventory system based on the cost method? Explain your answers.
2. Briefly notes on retail method and the cost method used by retailers in India
3. Explain the budgeting for merchandise and forecasting in retailing
4. How did you developing a financial plan in retail operations in India?
5. What are the merits and demerits of cost based inventory systems?

10.14 SUGGESTED READINGS :

1. Raiph D. Shipp, Retail Merchendising : Principles and Applications : Houghton Miffin college Division, 2th 1985
2. Retail management, ICFAI Center for management Research publications.
3. Barry Berman & Joel Revans, Retail management - Astratgic Approach, Prentice Hall India Limited, New Delhi, 2006.